Comprehensive
Annual Financial Report

For the Fiscal Year ended June 30, 2015

we Caguas

are

are ...
heart

WILLIAM E. MIRANDA TORRES, MAJOR

AUTONOMOUS MUNICIPALITY OF CAGUAS

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Old City

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2015

Autonomous Municipality of Caguas

For the Fiscal Year ended June 30, 2015

Honorable William E. Miranda Torres, Mayor

Prepared by Finance Department

Víctor M. Coriano Reyes

Secretary of Administration

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Tourism Office

We are Caguas... are heart

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LETTER OF TRANSMITAL

Museum Snuff
Herminio Torres Grillo

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Art Museum

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Víctor M. Coriano Reyes
Secretary of Administration

Angie L. Frías Báez
Finance Director

March 28, 2016

To the Honorable Mayor, City Council and Citizens of the Autonomous Municipality of Caguas:

The law requires that all general purpose local governments publish a complete set of financial statements within six months after the end of the fiscal year. These financial statements must be audited by a firm of licensed Certified Public Accountants and presented in conformity with Generally Accepted Accounting Principles (GAAP). Pursuant to the aforementioned requirements we hereby submit the Comprehensive Annual Financial Report (CAFR) of the Autonomous Municipality of Caguas, Puerto Rico for the fiscal year ended June 30, 2015.

This report consists of management's representations concerning the finances of the Municipality. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The Municipality's financial statements have been audited by CPA Diaz Martinez, PSC, a public accounting firm fully licensed and qualified to perform audits of local governments. The goal of the independent audit was to provide reasonable assurance that the Municipality's financial statements, for the fiscal year ended on June 30, 2015, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by the Management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinions that the Municipality's financial statements as of and for the year ended June 30, 2015, are fairly presented in conformity with the accounting principles generally accepted in the United States of America, except for the governmental activities of the government-wide financial statements, due to that the implementation of GABS Nos. 68 and 71 was based on unaudited financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multi-employer pension plan in which the Municipality is an employer. The Municipality don't have control to produce the audited financial information and depend of the ERS's management and plan auditors (see Note 18 of the Basic Financial Statements for more information). The independent auditor's report is presented as the first component of the Financial Section of this report.

GAAP requires that Management provides a narrative introduction, overview and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The Municipality's MD&A can be found immediately following the independent auditor's report in the financial section of the CAFR.

Economic Outlook

During the past 10 years, any economic advances Puerto Rico may have previously had were reversed or cancelled by a less -than-zero growth rate of its gross national product (GNP) insufficient revenues, increasing public debt, new and higher taxes, increasing unemployment rates and the final phasing out of Section 936 Of the US internal Revenue Code, thus fiscal setting back the island not 10 or 20, but 30 years. No one has received a more severe blow from this recession than the island's middle class.

The Puerto Rico Planning Board, the government agency in charge of estimating GNP and other economic indicators, has estimated the GNP for 2015 will be significantly lower than of 2014.

After the loss of thousands of well-paid jobs that the manufacturing sector used to provide and the ripple effect this has had on other areas of the economy such as construction and car sales, the consequences came quickly. The whole situation coincided with the crisis in the banking industry.

The economic Analysis Division of the Government Development Bank (GDB) estimates that will be a modest increment of 0.5% in employment for July 2016 and an additional 1.5% by December 2016.

As happened some 70 years ago, the need for jobs has prompted several hundred thousand people to move north to the mainland U. S., searching for a means of livelihood for their families.

Regarding the kidnapping of the fiscal budget, which was adopted by Congress to avoid the so-called fiscal cliff (that is, an increase in the combined deficit with tax increases), cuts in government spending on program heading, projects and activities in order to use the money to reduce the budget deficit, seeks to achieve savings of $ 1.2 trillion in 2021. The kidnapping could adversely affect economic growth and to contract the consumer spending component of the government. In addition, federal agencies have reported that because of these cuts have been forced to authorize licenses and reduce working days to employees, which impacts the income of individuals.

It is expected that the economy recovers and continue the expansion of economic activity from the first quarter 2013 and real GDP of the United States recorded an increase of 2.3 percent in the first quarter and 0.7 percent in the second quarter of this year. It is projected that economic activity increased again in the third quarter to 3.2 percent and 3.0 percent in the last quarter of 2013. In terms of the fiscal period of Puerto Rico, GI projections on GDP growth are 1.9 and 2.3 percent in 2013 and 2014, respectively.

The price of a barrel of oil fell 0.9 percent in 2012 after growing 19.7 percent in 2011. The estimated average price for a barrel of imported oil in the 2012 fiscal year was $94.20. According to GI, the average price per barrel will reach an average price of $90.70 for fiscal year 2013 and $ 88.10 in fiscal year 2014. Referring to the fiscal period of Puerto Rico, the price of a barrel of oil averaged $95.04 in fiscal year 2012. The outcome of this variable for fiscal years 2013 and 2014 shows average prices of $91.95 and $89.40, respectively.

PRIME RATE

Interest rates remain at historic lows, the sixth year in which the accommodative monetary policy Open Market Committee of the Federal Reserve seeks to help the growth of the US economy. Federal Reserve continues to buy bonds in the market. In late March 2013, the average mortgage rate at 30 years was 3.57 percent, not very far from the level of 3.31 percent reached in November 2012, the lowest rate since the series began collecting in 1971. It is expected that interest rates remain at a low level for a few years, although this low will depend on the unemployment rate improves and reaches close to the 6.0 percent level. According to GI, the prime rate in fiscal year 2012 was 3.25 percent, the same as in fiscal year 2011. Referring to the fiscal period of Puerto Rico, it is projected that in fiscal years 2013 and 2014, this rate is maintained at 3.25 percent.

VISITOR EXPENDITURE

Spending by non-resident visitors in Puerto Rico totaled $3,192.9 million during the 2012 fiscal year, registering an increase of 1.6 percent over the previous fiscal year reached $3,142.8 million. This increase was driven by tourists staying in hotels and hostels, which totaled 1,507,984 tourists; 99.448 tourists more than in fiscal year 2011.

With the Cruise ship industry, having a stellar year in the Caribbean, Puerto Rico's economy has benefited from $198.2 million in total cruise tourism expenditures, which in turn, generated 5,209 jobs and $75 million in wages during 2014-2015 cruise year.

CONSTRUCTION

Construction is one of the key sectors of the Puerto Rican economy. Construction investment, which refers to new construction by private companies and state and municipal government, is extremely important in the economic development of any country component, short and long term.

The construction activity includes the construction, expansion, repair and renovation of buildings or structures such as houses, shops, industrial buildings, roads, bridges, ports and other works by construction companies, therefore, it is vital to healthy development this sector in the economy of any country.

The construction activity plays a key role in the economy of Puerto Rico in both job creation and the development of the infrastructure of the island. In fiscal year 2012, construction investment at current prices reached $4,355.6 million in real terms, $481.2 million.

The projection indicates that for fiscal year 2013, real construction investment reached $490 million, an increase of 1.8 percent and for fiscal year 2014, an increase of 4.9 percent, with a value of $514 million. In current terms, for fiscal years 2013 and 2014, the projected figures are $4,495 and $4,724 million, showing growth of 3.2 and 5.1 percent, respectively. It is expected that the growth of this sector is driven by a strong injection of public funds in infrastructure, expansion in the construction of the railway from San Juan to Caguas, modernizing schools and the continuity of the projects on the agenda of the private sector, among others.

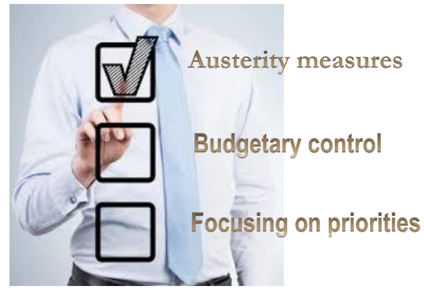
FINANCE AND ADMINISTRATION

This report contains within its pages the intense and hard work, along with a team of committed work has been carried out during fiscal 2014-2015.

Puerto Rico has more than ten years through economic challenges that have historical repercussions. These challenges have come at all levels and municipalities are no exception. The laws and decisions to address this crisis by the central government play somehow municipal governments.

However, municipalities continue to give battle and showing that public bodies are at the forefront of aid to citizens. We know firsthand the problems facing the people. It has been shown that we have the capacity and efficiency in resource management and service delivery.

In **Caguas** we have managed to keep our finances in excellent condition, implementing austerity measures and budgetary control, strictly focusing on the priorities of the city and act with prudence and fiscal discipline.



At the end of the fiscal year 2014-2015, the financial resources of the General Fund totaled $110.2 million while expenditures were $107.4 million, for a surplus of $2.8 million.

Revenues from local contributions include:

- $50.7 million from the Property Tax; This amount represents a reduction of 1.9% compared with the previous year due to a decrease in the payment of twenty hundredths of 1% (.20%) of the basic tax levied and not paid, and that corresponds to Central Government compensate municipalities;
- $23.6 million in Volume of Business Taxes; figure that exceeds $100,000 revenue from volume of business taxes last year, which reflects the support and commercial strength of our City;
- $20.9 million of the Sales and Usage Tax (IVU), amount maintained its level compared with last year revenues, and this is one of the concepts with more stable income;
- $5 million in construction excise taxes; this represents an increase of $1.9 million compared to revenues of excise taxes last year as a result of our enforcement efforts.
- In addition our General Fund received $15 million of intergovernmental revenues; and $5.8 million for other items, such as rents, services, fines and bank interest. The financial resources include $3.9 million of funding sources supported by the Special Surtax on the property, and the allocation of the remaining $2.5 million of accumulated cash balance at June 30, 2015.
- These results are the product of the work of our Department of Administration, which includes the offices of Finance, Management and Budget, External Resources, Purchasing and Auctions, City Clerk and Information Technology.

During fiscal year 2014-2015, the Office of Finance successfully continued its special control and analysis of financial statements of taxpayer project 41 tax evasion cases were identified in respect of volume of business taxes and municipal construction. They were processed and generated about $2 million in extraordinary income. Nine other cases are under evaluation and are expected to generate about $150,000 extra. This special project began in fiscal year 2013-2014, and has since generated total revenues of about $3 million.

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In July 2014, our internal revenue agents took to the streets in what was the third edition of a proposed tax guidance, which this year called: MORE MUNICIPAL SERVICES. Under this initiative we visited 1,643 business and orient the importance of formally operate and meet their tax responsibilities. This generated management fees and payment plans in excess of $3.8 million.

An amnesty period for payment of Municipal IVU was decreed at the same time as did the State Department of Finance. In the month-long amnesty, we raised over $ 76,000. This initiative benefited 21 taxpayers.

Since the approval of Act No. 63 of June 21, 2010, our municipality is responsible for itself, without being subject to the Area Public Insurance. This measure has proven that local governments are more efficient than the central government in managing resources. During the past three years the Office of Finance and Legal Affairs have managed to reduce our insurance costs $ 1.9 to $ 1.5 million; a savings of $ 400,000.00.

During fiscal year 2014-2015 in coordination with the Office of the Executive Advisor, a Board of Inter Auction composed of officials from the municipalities of Humacao, Yabucoa and Caguas, through the Initiative Technological Eastern Center (INTECO) is created. This Board is responsible for performing procedures for procurement of goods and services together, in order to streamline administrative procedures and achieve savings in the cost of products for volume purchases.

As a first project, this Special Board held the auction for the purchase of asphalt and concrete pre mixed. According to these auctions were awarded, and assuming that the amount of material to be purchased during the current fiscal year will be same as last year, we estimate that the participating municipalities have a collective savings of $ 95,000 in the purchase of these products.

This is just one example of the benefits we can get with projects in partnership with other municipalities, driven and aimed at better efficiency and regional strengthening. The goal for next year is to add other categories and to involve other members of INTECO municipalities.

Caguas has always been aware of the importance of new information and communication technologies. As stated in Guideline No. 6 of the Strategic Plan of New Generation, "Caguas operates under a new model of governance based on strategic planning, democratic governance, professionalism, e-government and accountability." This inclusion of the issue of e-government is a strong commitment to use technology as a tool for citizen participation and effectiveness in government processes.

In that direction, the past fiscal year, the Office of Information Technology, together with the Communications Unit remodeled our official site on the Internet: CAGUAS.GOV.PR. The project involved the creation of a modern, attractive, interactive and tailored to our corporate image graphic design; a new architecture and organization of content based on the information and service needs of the main types of users: citizens, businesses, visitors and other governments; a mobile version for easy access through "tablets" and smart phones; and various interactive components, such as creating virtual tours of the city through a lens 360 degrees.

ECONOMIC DEVELOPMENT

The revitalization of our urban side is a priority for our Municipal Administration. Christmas Campaign aimed at local trade was made. The special promotional event included; integrated communication campaign (PR, events, promotions, newspapers, digital media with emphasis on the social networks); regional promotions; Sales discount coupons to be used in shops; billboards, radio ads; posters, banners, poles, web page; Christmas calendar of all events in our city; promotion coupons from participating businesses and Facebook messages.

We are proud to announce that the Municipality of Caguas has been selected as winner of the Bronze Award in Excellence in Economic Development of the International Economic Development Council for our Christmas Campaign. As winner of International Economic Development Council, recognize that our organization has to share ideas and projects that are truly innovative and worthy of being emulated by other jurisdictions. Our Municipal Administration has been the only municipality in Puerto Rico that has been recognized by such a prestigious organization.

SOCIAL DEVELOPMENT AND CULTURE

The Department of Social Development and Self Community has organized 82 communities in the Autonomous Municipalities Act and 42 sheltered by the Access Control Act for a total of 124 communities implementing the model of citizen participation in our town. Through the Resident Association, we promote citizen participation and conducting community activities impacting 179 to 9,331 citizens. We got 60 associations of residents or 73%, which are registered with the Department of Social Development and Self-Management Community.

These 73% of the Boards of Directors (60 associations) received 112 workshops to strengthen their training in community development process. 793 people benefit through cycles of continuing education workshops, exceeding the 30% or the 25 associations that were contemplated in the work plan.

The Department of Social Development performed 454 community meetings benefiting 2,422 people. 64 community meetings were held, with a benefit for 1,481 residents. This has allowed 91% of Residents Associations administrative operational documents remain consonant with Chapter 16 of Law 81.

In keeping with the security plans of the city affecting the quality of life of communities, Residents Associations received guidance regarding the new work plan of the Municipal Police. 107 community leaders from more than 45 communities participated in community safety initiative. Currently, we have three committees and a safety project, assigned to the Resident Associations. Through AmeriCorps 21 proposed security committees for emergency management were established.

Over 30% of Residents Associations have been trained in seeking external funding.

The Volunteer Center offered four workshops achieving the development of two non-profit organizations. Three organizations for a total of 39 were integrated.

In addition, community development and security, health is an important aspect so that currently, there are programs to promote healthy communities with aerobic classes, Tai Chi, Zumba and talks to promote health and nutrition.

Caguas is a city with a strong cultural tradition that is part of our identity and what makes us the cradle of Creole in Puerto Rico.

It is for this reason that we at the municipal level culture to every corner of the city. We hold book presentations, writing contests, workshops, seminars, discussions, 24 Criollo handicraft market activities with the participation of 623 artisans.

Some 42.868 people visited our museums with a total of $19.603 in sales. 41 activities between exhibitions, museum opening, book presentations, conferences, lectures and readings were taken. If something gives us joy is investing $40.390 we do workshops in fine arts. There is no doubt that talent comes in the native land by expressions: drawing, theater, dance, four, and percussion, among others.

We have a vibrant festival of theater and busy which 4,573 people enjoyed. The festival involved 12 theater companies.

As part of our cultural, they were held 25 Cultural promotion activities. Twelve issues of Al Fresco Culinary Fest who collected in fiscal 2014-2015 to approximately 26,000 people. We also had two editions of Hakata with the participation of about 2,800 people; World Troubadours enjoyed and typical Creole Festival; Turning Christmas; del Rosario to Santa Claus and our traditional Fiesta de Reyes was successful.

And Caguas is also synonymous with sports; it is the city of champions with the best program of mass sports in Puerto Rico. Our program has 36 recreational sports leaders and 17 technical schools. This program served the past fiscal year to 30 communities and 95.793 people from different villages.

SAFETY AND PROTECTION

The Municipal Police Caguas is an integral part of our regionalization efforts that lead to saving public money. Shooting instructor's assigned to, in partnership with the State Police Academy in Gurabo will train and certify other municipalities Municipal Police. These collaborative agreements prevent the municipal police of these people engage in payments instructors and equipment to certify its staff. Total Municipal Police trained amounted to 257 six municipalities: Aguas Buenas, Gurabo, Cayey, San Lorenzo, Maunabo and Patillas. Following in the region, we started the guidance and management of the car seat. A total of 319 citizens of Caguas, Stones, Gurabo, Humacao, San Lorenzo, Juncos, Cayey, Aguas Buenas, Cidra, Guaynabo, Lajas, Vega Baja, Fajardo, Guayama, Rio Grande, Bayamon, Aibonito Naranjito, Ceiba, Naguabo, Corozal Yabucoa and were educated to ensure the safety of our children. In Caguas we know, maximize resources and work together for the benefit of all Puerto Ricans. Therefore, we are proud to say that we are Caguas, We are Heart.

The effort to combat violence must be carried out jointly and in collaboration with communities. The Municipal Police by the Community Self-Management Office established a plan where each community appoints the members of their community meetings Community Safety link.

The approach we do to combat violence is not only punitive. There are situations in which mistakes can be amended to make way for a different future and for that we have the Hope of Life Program. With the collaboration we have achieved healthy support 47 people voluntarily enter various rehabilitation programs. The success of this management coordination has been awarded by the Office of Training and Advisory Committee on Labor and Human Resources Affairs (OCALARH) of the Commonwealth to confer the Manuel A. Pérez award for this program social worker Mrs. Gladybelle Rios Ayala.

The professionalization of the municipal police is an important aspect which also works. In Caguas, the exercise of functions to protect the lives and property of people harmonizes with safeguarding the civil rights of citizens. Collaborative agreements established initially by our Municipality and the University of Turabo have strengthened the training of our municipal police. It is for this reason that today we have a better prepared police: we have three agents with master's degrees, 21 high schools; 46 with associate degrees and 16 technical certificates. We continue to prepare agents and especially in our Municipal Police have committed public servants.

Our security component also includes the Municipal Office for Emergency Management (OMME), attending calls or requests for immediate attention.

The fiscal year 2014-2015 our staff attended to 1,295 redemption requests including car accidents, fires, falls personnel, disoriented people, cutting of trees and other emergency cataloged all as mentioned. The division of attention to our animals handled a total of 1,582 service requests for a total of 4,114 animals treated in the streets.

INFRAESTRUCTURE AND PUBLIC WORKS

One of the most important tasks that the municipal administration has to address is the infrastructure of the city and its conservation. This task is difficult, because in times of economic narrowness identify funds and maintain roads conditions and other structural components is no easy task.

However, this fiscal year, the Municipal Public Works Department, conducted 17 construction projects. These efforts have been carried out using in some cases the labor of our municipal employees and other, hiring companies to do the same. Some of the works included repairs sidewalks, curbs, repair of roadways, improvements to bridges, among others, for an investment of $2,800,000.

The Buildings Department of Conservation ended, for this fiscal year, 61 projects from the list of projects with allocation of funds, which included work on recreational facilities, communal, municipal buildings, etc. with a total investment of $1,175,280.57.

Department of Ornate and Beautification attended 219 court cases and tree pruning and maintenance of public nuisances. With an estimated $2,000,000 investment in the maintenance of our green areas, streets and municipal roads, parks, recreational areas and state highways were met.

During this last fiscal year, the Department of Development and Mobility Project Citizen, made 17 construction projects involving demolition, improvements recreational facilities, storm sewers, roofs tennis, housing, among others for an investment of $1,700,800.

On the other hand, we continue Transcriollo services and managed two projects critical to our strategic objectives for mobility in federal STIPs (State Transportation Improvement Plan) DTPW inclusion program. These were: Terminal Repair Francisco "Pancho" Pereira with an investment of $1,531,522 and the design cycle path that will run on PR 189 and PR1 with an investment of $375,000.

In order to bring services closer to the people this fiscal year 2014-15 Campaigns we return to “DEL CAMPO AL PUEBLO”. We develop, once again, an exercise of social commitment to community members, government, private enterprise and the churches. This gather is done as part of the efforts of cleanliness and order of our city chasing us all get involved and assume the responsibility we have to our environment and its protection. Three seasons were held: Barrio Pueblo, Barrio Cañabón and Rio Cañas, with an average participation of 500 volunteers per season. In addition, 735 vaccinations were given to pets, 387 patients participated in health clinics and 737 pounds of electronic equipment were recovered.

WE ARE CAGUAS… ARE HEART

We work tirelessly to provide a responsible, caring and efficient municipal administration that works with people.
Our present is the future that others dream.

The new chapters in the history of Caguas are written with commitment and responsibility. We have a strong footing, whose vitality is nourished by our native pride and work of men and women who give their best for us to remain Center and Heart of Puerto Rico.

We are community; We are culture; We are sport; We are entrepreneurs; We are tourism; We are education; We are service; We sustainability; We are creative; We are innovation; We are safe; We are Caguas, We are Heart.

Independent Audit

Local statutes require an annual audit by independent certified public accountants. The independent auditors from CPA Diaz Martinez PSC were selected by the Municipality to perform the audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2015 in accordance with auditing standards generally accepted in the United States of America. The independent auditors’ report on the financial statements is included in the financial section of this report.

The Municipality is also required to undergo an annual audit to obtain reasonable assurance about compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs. This audit was also conducted by CPA Diaz Martinez, PSC and the Single Audit Report will be published at the same date as a separate document.

AWARDS

The Municipality became a hub for sustainable economic development while protecting the environment through its Public Works Department, in charge of various services, including the maintenance of local streets, flood control facilities, maintenance of common areas, solid waste collection, recycling, parks and recreational facilities maintenance and public lighting maintenance.

Cleanliness of the Municipality is of outmost importance for us, even in State roads, bridges and facilities. This municipal agency developed gardens throughout the entire Municipality. Waste management continues to be a top priority in Caguas because of the Municipality's status as the hub for business and tourism activity. Our recycling program continues to serve as a standard for other municipalities to follow.

All these embellishment and reforesting initiatives have been recognized by local, national and international organizations:

In 2015, our Municipality received a recognition from the Puerto Rico Environmental Quality Board for being "Amigos del Menos Ruido".

In the year 2013 Caguas received an award from the Fleet Managers Association of Puerto Rico, as the best vehicle fleet.

In the year 2011, our Municipality received a recognition for our Historic Archive for the precious contribution to our culture.

On November 2010 our Municipality won a Bronze medal in the United Nations Organization "International Livable Communities Award".

In the year 2009, Caguas received the "Environmental Quality Award" in the Government category, awarded by the United States Environmental Protection Agency to the Autonomous Municipality of Caguas, for the project "Caguas Flourecente" (fluorescent).

In the year 2009: *Tree City USA Award* given by the National Arbor Day Foundation of the city of Nebraska, Caguas was recorded as an "Arboreal City".

In the year 2006, Caguas received the "Environmental Quality Award" in the Government category, awarded by the United States Environmental Protection Agency to the Autonomous Municipality of Caguas, for establishing a comprehensive environmental protection program in the City.

In the years 2001, 2003 and 2004, Caguas´ Public Works Department received the Caribbean Urban Forestry Award, for establishing programs of reforestation, gardening, beautification and environmental conservation.

In the years 2002, 2003 and 2004, the Puerto Rico Environmental Quality Board granted Caguas its Cleanest City Award.

The Government Finance Officers Association of the Unites States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Autonomous Municipality of Caguas for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the sixth consecutive year that the Municipality has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Municipality has to publish an easily readable and efficiently organized CAFR that satisfies both US GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

We express our appreciation to the Mayor and the City Council for their continuous support. Their vision and leadership always allows us to accomplish our goals in a responsible and progressive manner.

We recognize that the preparation of this report could not have been accomplished without the assistance of the entire staff of the Finance Department. With appreciation for all members of the Finance Department who contributed to the preparation and completion of this report. Due credit is also given to our independent auditors, CPA Diaz Martinez, PSC, and our financial consultants HLB Parissi PSC, for their continuous advice and commitment.

Respectfully submitted,

AUTONOMOUS MUNICIPALITY OF CAGUAS, PUERTO RICO

Víctor M. Coriano Reyes
Secretary of Administration

Angie L. Frías Báez
Finance Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Autonomous Municipality of Caguas

Puerto Rico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Jeffrey R. Emer

Executive Director/CEO

ELECTED OFFICIALS

MAYOR
William E. Miranda Torres

ELECTED MUNICIPAL COUNCELORS

PRESIDENT
José R. Torres Torres

Antonio Cruz Gorritz
Rafael A. Carballo Collazo
Esteban Ramírez Del Valle
Ismael González Rivera
Alberto R. Costa Berríos
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Victoria Cintrón Cruz
Sylvia Rodríguez Aponte
Antonio R. Castro Rivera

APPOINTED OFFICIALS

VICE-MAYOR
Lydia I. Rivera Denizard

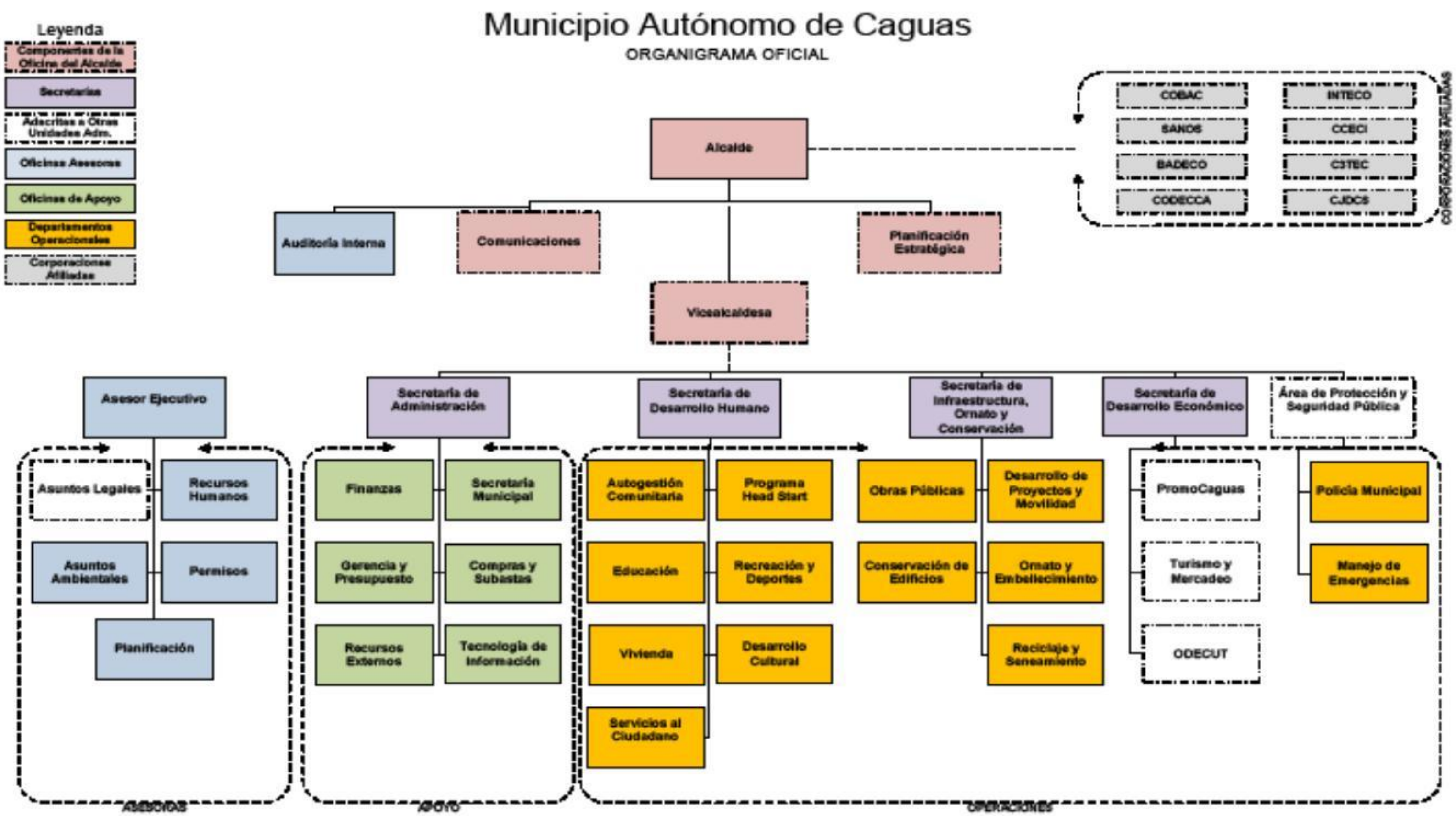
Mónica Y. Vega Conde, Esq.
Executive Advisor

Víctor M. Coriano Reyes
Secretary of Administration

Aida I. González Santiago
Secretary of Human Development

Ada Belén Caballero Miranda
Secretary of Infrastructure, Beautification, and Conservation

Zamia M. Baerga Torres
Secretary of Sustainable Economic Development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Secretarías
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Oficinas Asesoras
Oficinas de Apoyo
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OPERACIONES

Caguas criollo

Criollo (Creole)… For the people of Puerto Rico the meaning of this word is unique because it represents everything that makes them, as well as their island, unique. Its sights…Its flavors…Its sounds…Its essence. And there is a unique place where the full meaning of the word creole comes to life… Caguas. You can ask any Puerto Rican. The Creole Heart of Puerto Rico beats in Caguas. Come and discover why.

Financial Section

Autonomous Municipality of Caguas
For the Fiscal Year Ended June 30, 2015

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Fine Arts Center
Eng. Angel O. Berríos

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan

The deferred outflows/inflows of resources, and net pension liability in governmental activities of the government-wide Statement of Net Position, and the pension expense for the current period change in that liability in governmental activities of the government-wide Statement of Activities, which represents the 100 percent, 100 percent, 39 percent, and 6.8 percent of the deferred outflows/inflows of resources, total liability as of June 30, 2015, and expense for the fiscal year then ended. These amounts were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the *Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Municipality as of June 30, 2015 and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major funds, and the aggregate remaining fund information of the Municipality, as of June 30, 2015, and the respected changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 22 to the financial statements, the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* during the fiscal year 2015. Our opinions is not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 21 to the financial statements, the 2014 financial statements have been restated for the implementation of GASB Statements Nos. 68 and 71. Our opinions is not modified with respect to this matter.

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INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and employees' retirement systems information, on pages 7-22, pages 111-112 and 113 through 114 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to management's discussion and analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to Municipality, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Municipality's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Caguas of the
Commonwealth of Puerto Rico

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2016 on our consideration of the **Municipality**'s internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considered **Municipality**'s internal control over financial reporting and compliance.

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 23, 2016

Stamp No. E212806 was affixed to
the original report.

AICPA Governmental Audit Quality Center

MANAGEMENT'S DISCUSSION AND ANALYSIS

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To the Citizens and the Municipal Legislature
of the Autonomous Municipality of Caguas

The information in this section is not covered by the Independent Auditor's Report, but is presented as required supplementary information for the benefit of the readers of the basic financial statements.

As management of the Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (hereafter the Municipality), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. We encourage readers to read the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The net position of the Municipality shows that governmental assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by $45,103,797, as restated.

- The government's total assets and deferred outflows, in the Governmental wide Statement of Net Position decreased by $11,530,675 and government's liabilities and deferred inflows increased by $5,023,085. These changes resulted in a decrease in total net position of $16,553,760, as restated. Refer to the Capital Assets and the Debt Administration Sections for general information related with the use of funds provided by debt issuance.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $47,685,739, as restated, after a total and combined net decrease of $10,157,141.

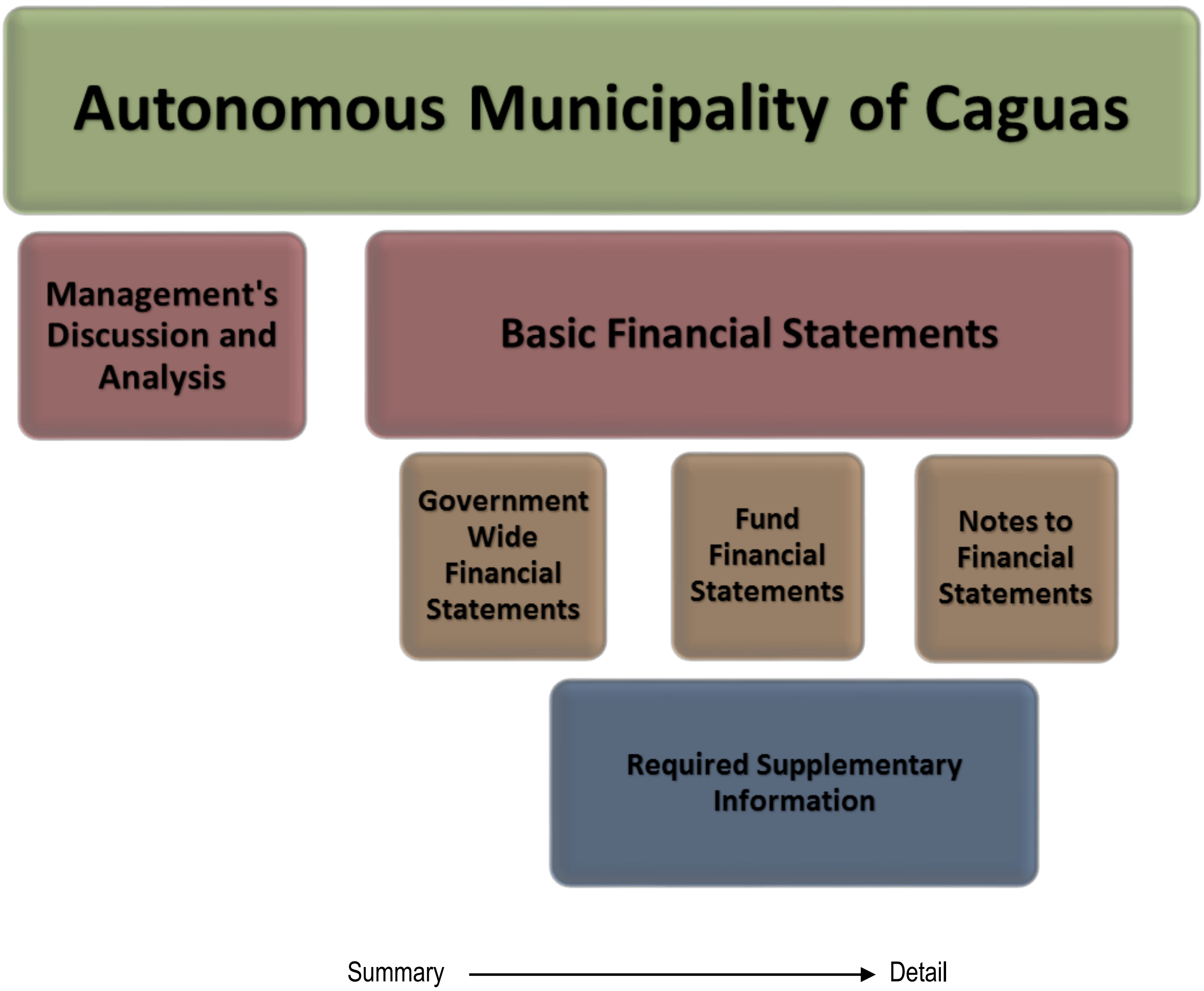
- The Municipality's total general and special long term debts net decreased by $11,437,414 during the current fiscal year. The use of funds were for infrastructure development, recreational facilities and acquisition of equipment. Refer to Capital Assets and Debt Administration Section for general information related with the use of funds provided by debt issuance.

- Prior period adjustments of $179,313,567 were primarily the result of the Municipality's unfunded pension obligations by the implementation of GASB Statement No. 68 and 71.

- Net Investment in Capital Assets from Governmental Activities as of June 30, 2015 was $441,118,631, as restated, presenting a decrease of $10,890,841 with respect with prior year adjusted balance. In addition, during the year, the Municipality retired from its Schedules of Capital Assets, construction units held for sale to low income families, constituents of the Municipality, and report them as Housing Units and Idle Units Held for Sale. These units previously represented $1,091,240 (net of depreciation) in the Schedule of Buildings.

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Municipality through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Municipality.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-Wide Financial Statements**. They provide both, short and long-term information about the Municipality's financial status.

The next statements are the **Governmental Fund Financial Statements**. These statements focus on the activities of the individual parts of the Municipality's government. These statements provide more details than the Government-wide Financial Statements.

Government-Wide Financial Statements (GWFS)

The GWFS are designed to provide the reader with a broad overview of the Municipality's finances. The GWFS provide short and long-term information about the Municipality's financial status as a whole.

The *Statement of Net Position* presents information on all of the Municipality's assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The *Statement of Activities* presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit, if any). This is intended to summarize and simplify the reader's analysis of the revenues and costs of the Municipality's activities and the degree to which activities are subsidized by general revenues.

The governmental activities include most of the Municipality's basic services such as public safety, culture and recreation and general administration. Property taxes, volume of business taxes and state and federal grant funds finance most of these activities.

New Significant Accounting Standards Implemented

During fiscal year 2015, the Municipality adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board related to accounting and financial reporting for pensions:

- Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, and

- Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68

Statement No. 68, establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed in the Statement No. 67. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental non-employer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosures and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the Municipality governmental fund financial statements, which continue to report expenditures in the amount of the actuarially determined contributions, as required by law. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the Municipality's fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of July 1, 2014 was decreased from $240 million to $62 million reflecting a net decrease of $179 mainly as a result of the adoption of the Statement No. 68, using unaudited data.

In addition, the Governmental Accounting Standards Board issued Statement No. 69, Government Combinations and Disposals of Government Operations, but does not have impact on the Municipality's financial statements

The government-wide financial statements are included from pages 25 through 27 of this report.

Governmental Fund Financial Statements (GFFS)

The governmental fund financial statements provide a more detailed look at the Municipality's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like all other governmental entities in the Commonwealth of Puerto Rico, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Municipality's budget ordinance.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Municipality's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash inflows and outflows, and what monies are left at year-end that will be available for spending in the next fiscal year.

Governmental funds are reported using an accounting method called *modified accrual basis of accounting.* This method is also known as a current financial resources focus. As a result, the governmental fund financial statements give the readers a detailed short-term view that helps them determine if there are more or less financial resources available to finance the Municipality's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Municipality adopts an annual budget for its General Fund, as required by the General Statutes. The Municipality's annual budget is a legally adopted document that incorporates input from the citizens of the Municipality, the management of the Municipality, and the decisions of the Municipal Legislature about which services to provide and how to pay for them. It also authorizes the Municipality to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the Municipality complied with the budget ordinance and whether or not the Municipality succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the municipal legislature; 2) the final budget as amended by the municipal legislature; 3) the actual resources, charges to appropriations, and the final relationship between revenues and appropriations; and 4) the difference or variance between the final budget and the actual resources and charges.

The governmental funds financial statements are included from pages 28 through 32 of this report.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements; which are included from pages 33 through 107 of this report.

Required Supplementary Information – Budgetary Comparison – Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund, are presented immediately following the notes to the financial statements and can be found on pages 111-112 of this report.

Required Supplementary Information – The required supplementary information reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, are presented on pages 113 through 115 of this report.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The total assets and deferred outflows of the Municipality exceeded its liabilities and deferred inflows by $45,103,797 as of June 30, 2015. The Municipality's net position decreased by $16,553,760, as restated, for the fiscal year ended June 30, 2015.

One of the largest portions of the net position, $267,268,049, reflects the Municipality's investment in capital assets (e.g. land, buildings, infrastructure, and equipment); less any related debt still outstanding that was issued to acquire or contract those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Municipality's net position $43,222,730 represents resources that are subject to external restrictions on how they may be used.

An Unrestricted Net Position (Deficit) of ($265,386,982) was presented as of June 30, 2015. This balance was negatively affected primarily to by the implementation of GASB Statements No. 68 and 71, for the amount ($198,023,675). Other long-term debts, such as compensated absences ($12,382,877), and Municipal Revenue Collection Center Liquidations ($2,065,296), also affected the net position.

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The Municipality's Net Position
Figure 2

	Governmental Activities			
	2015	2014	Dollar Change	Percentage Change
Current and Other Assets (as Restated)	$ 99,200,218	$ 108,630,728	$ (9,430,510)	-8.68%
Capital Assets (as Restated)	441,118,631	452,009,472	(10,890,841)	-2.41%
Housing Units Held for Sale	988,673	-	988,673	100.00%
Idle Units Held for Future Use	102,567	-	102,567	100.00%
Loan Receivable, Net	444,014	730,383	(286,369)	-39.21%
Total Assets	541,854,103	561,370,583	(19,516,480)	149.70%
Deferred Outflows of Resources	11,426,811	3,441,006	7,985,805	232.08%
Current Liabilities (as Restated)	52,140,316	50,244,897	1,895,419	3.77%
Other Liabilities	454,452,133	452,909,135	1,542,998	0.34%
Total Liabilities	506,592,449	503,154,032	3,438,417	4.11%
Deferred Inflows of Resources	1,584,668	-	1,584,668	100.00%
Net Position:				
Net Invested of Capital Assets (as Restated)	267,268,049	280,137,995	(12,869,946)	-4.59%
Restricted (as Restated)	43,222,730	36,791,572	6,431,158	17.48%
Unrestricted (Deficit) (as Restated)	(265,386,982)	(255,272,010)	(10,114,972)	3.96%
Total Net Position	$ 45,103,797	$ 61,657,557	$ (16,553,760)	16.85%

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The Municipality's Statement of Activities
Figure 3

	Governmental Activities			
	2015	2014	Dollar Change	Percentage Change
Revenues:				
Program Revenues:				
Charges for Services	$ 1,175,432	$ 1,328,635	$ (153,203)	-11.53%
Operating Grants and Contributions	29,465,623	27,371,911	2,093,712	7.65%
Capital Grants and Contributions	2,181,931	2,022,386	159,545	7.89%
General Revenues:				
Property Taxes	50,700,722	51,678,096	(977,374)	-1.89%
Volume of Business Taxes	23,624,260	24,735,251	(1,110,991)	-4.49%
Sales and Usage Taxes	20,916,340	20,580,433	335,907	1.63%
Intergovernmental	13,567,369	14,012,671	(445,302)	-3.18%
Construction Excise Taxes	4,947,664	2,991,732	1,955,932	65.38%
Interest and Investment Income	756,516	981,420	(224,904)	-22.92%
Other	2,151,991	2,147,933	4,058	0.19%
Total Revenues	149,487,848	147,850,468	1,637,380	1.11%
Expenses:				
General Government	40,544,933	38,255,865	2,289,068	5.98%
Public Safety	11,954,408	9,804,511	2,149,897	21.93%
Public Works	23,525,790	22,565,224	960,566	4.26%
Cultural and Recreation	10,374,870	10,120,801	254,069	2.51%
Health and Welfare	12,543,232	11,994,232	549,000	4.58%
Economic and Social Development	9,328,833	8,199,012	1,129,821	13.78%
Housing	10,545,647	11,030,562	(484,915)	-4.40%
Sanitation and Environmental	16,387,879	15,347,716	1,040,163	6.78%
Education	20,033,373	17,028,422	3,004,951	17.65%
Interest	10,802,643	10,636,609	166,034	1.56%
Total Expenses	166,041,608	154,982,954	11,058,654	7.14%
Excess (deficiency) before extraordinary and special items:	(16,553,760)	(7,132,486)	(9,421,274)	132.09%
Extraordinary Items:				
Donated Capital Assets	-	66,911	(66,911)	-100.00%
Special Items:				
Contributions to Nonprofit Entity	-	(767,917)	767,917	-100.00%
Net Change in Net Position	(16,553,760)	(7,833,492)	(8,720,268)	111.32%
Net Position, Beginning of Year, as Restated	61,657,557	69,491,049	(7,833,492)	-11.27%
Net Position, Ending	$ 45,103,797	$ 61,657,557	$(16,553,760)	-26.85%

Governmental Activities – Governmental activities decreased the Municipality's net position by $16,553,760. Key elements of this change in net position are the following:

Revenues:

- Total overall revenues increased by 1.11% over prior year. The following categories had the mayor changes from prior year:

  - Operating grants and contributions increased 7.65% over prior year – mainly by an increase in the funds received for the Head Start Program from the U.S. Department of Health and Human Services.

  - Construction Excise Taxes increased by 65.38% – for the second half of fiscal year 2014, the Municipality contracted external resources with the purpose of reviewing its contributor's financial statements and identifying deficiencies in the contributions received as construction excise taxes. This effort resulted in the collection of approximately $1 million until the end of fiscal year 2014. For fiscal year 2015, the effort was performed during the whole year and approximately $2 million were collected.

  - Property taxes decreased 1.89% - mostly as a result of a reduction of 13% of the revenue received from state appropriations.

  - Volume of Business Taxes decreased by 4.49% - the businesses within the Municipality had reduced sales during the fiscal year 2015 and therefore the taxes collections were decreased accordingly. Although many of them submitted their tax returns on time, they opted to postpone their contributions payments, which also affected collections of taxes for the year.

Expenses:

Total overall expenses had a net increase of 7.14% over prior year. This increase was mainly due to an increase of $6.7 million on the expenses related to the implementation of GASB Statement Nos. 68 and 71 during fiscal year 2015. In addition, the amount of $1.6 million was recognized as due to MRCC Property Tax Liquidation during the year.

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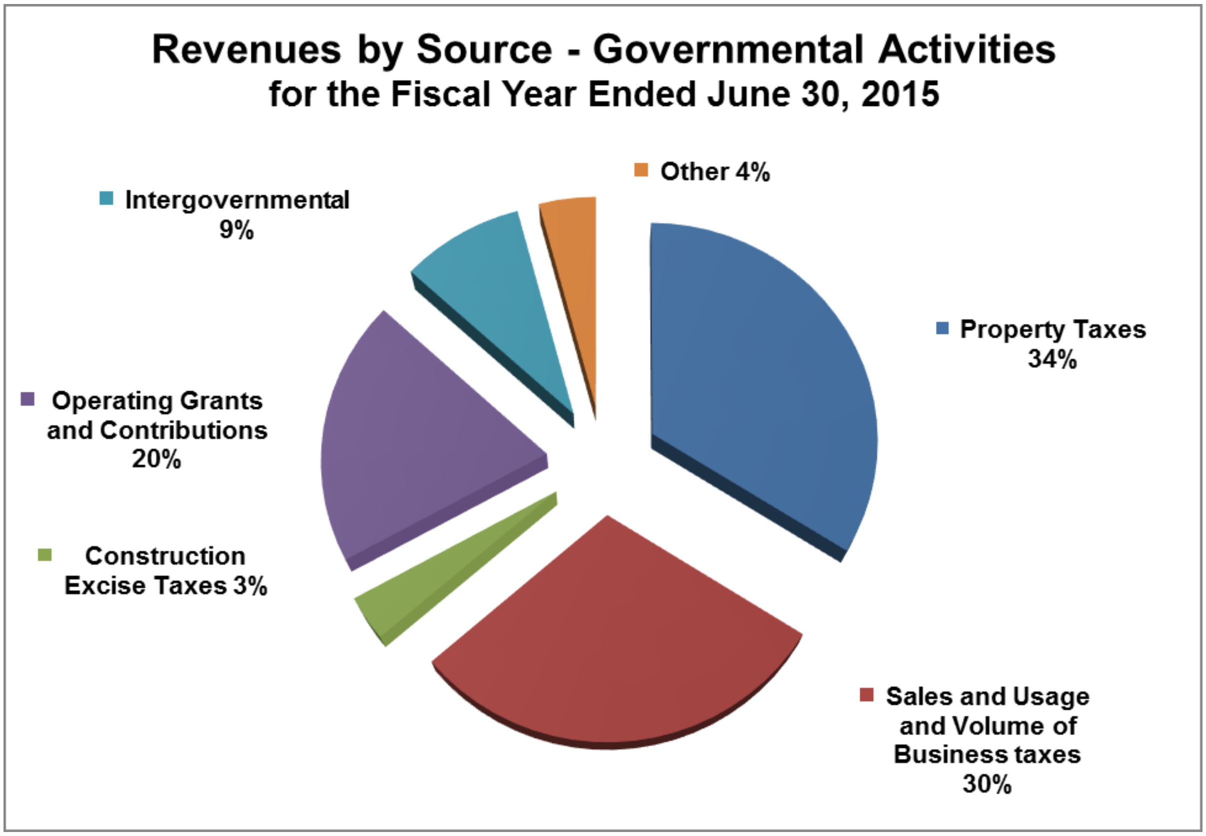

Financial Analysis of the Municipality's Funds

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of The Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Municipality's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2015, the governmental funds of the Municipality reported a combined fund balance of $47,685,739, as restated. This amount represents a decrease of $10,157,141 or 17.6% over last year. Following is a summary of the most relevant funds' changes when compared to prior year:

General Fund – The general fund revenues increased by $249 thousands and the expenditures decreased by approximately $1.2 million, in comparison from prior year. There was a significant reduction in the issuance of debt for the year of $3.6 million with respect from prior year, the transfer in of funds from the Debt Service of $3 million produced additional financial resources resulting in a net increase in fund balance of $2.8 million.

Capital Project Fund – Revenues from capital project fund decreased by $4.4 million, mainly due to a reduction in federal grants available during the year. Expenditures for this fund also decreased, showing a reduction of $7.4 million. This reduction was mainly caused by a decrease in the expenditures related to capital outlays of $7 million. The transfers of funds decreased by $4.7 million when compared with prior period, for a net change of expenditures over revenues of $5.9 million, approximately.

Debt Service Fund – Revenue from debt service fund decreased by $3 million, mainly as a result of prior year collections of the property tax amnesty act of 2011. In the other hand, the fund's expenditures increased by $1 million caused by an increase in the debt service principal payments. The increased expenditures for the year and the reduction in revenues caused a negative net change of $5.6 million.

Health and Human Services Fund – Revenue from the HHS fund increased by almost $2 million, mainly due to an increase in federal grants received during the year. The expenditures increased accordingly by $2 million as well, as mentioned before it happened specifically under the Education governmental activity due to the start of a new project under the partnership with "Centros Infantiles Criollos" and with the expansion of the Early Head Start Program under the Municipality. The fund had a net change of expenditures over revenues of $67,638, for an ending fund balance of $27,512

Other Governmental Funds – Revenues decreased by $785 thousand, mainly due to a reduction in federal grants available during the year. The expenditures also decreased by $321 thousand resulting on a negative net change of $1.4 million.

General Fund Budgetary Highlights: During the fiscal year 2015, the Municipality's budget was changed, according to the latest results and ordinances and resolutions approved by the Mayor and the Municipal Legislature. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants and from appropriation from prior year fund balance; and 3) increases in appropriations as a result of cash surplus from prior period to supplement capital projects funding and general government activities.

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2015 was $105,566,828 which is less than the prior year appropriations by $3,273,245 and which was later increased by $2,477,000.

- Actual budgetary transactions generated an excess of appropriations over resources of $1,604,852 due to the following:

    - Actual revenues were less than budgeted amounts by $4,677,512. This result was, mainly, as a combination of a decrease in construction excise taxes $5,077,560, and an increase in rent revenue and other sources for $1,299,043.

    - Actual appropriations resulted in an economy of $3,072,660. All functions presented economies, especially general government, which presented $1,330,037 in economies.

	Original	Increases	Final
Resources:			
Property Taxes	$ 33,127,956	$ -	$ 33,127,956
Volume of Business Taxes	25,900,000	-	25,900,000
Sales and Usage Taxes	17,180,000	-	17,180,000
Fines and Penalties	620,000	-	620,000
Interest and Investment Income	650,000	-	650,000
Intergovernmental	13,978,417	-	13,978,417
Construction Excise Taxes	9,482,500	-	9,482,500
Rent and Other Resources	4,627,955	2,477,000	7,104,955
Amounts available for appropriation	105,566,828	2,477,000	108,043,828
Expenditures charged to appropriations:			
General Government	42,927,598	1,560,268	44,487,866
Public Safety	10,418,187	(600,931)	9,817,256
Public Works	11,928,256	2,250,921	14,179,177
Culture and Recreation	5,184,682	103,430	5,288,112
Health and Welfare	10,463,373	4,795	10,468,168
Economic and Social Development	4,998,457	(24,216)	4,974,241
Housing	860,525	(6,150)	854,375
Sanitation and Environmental	16,138,288	(693,667)	15,444,621
Education	2,647,462	(117,450)	2,530,012
Total charges to appropriations	105,566,828	2,477,000	108,043,828
Excess of resources over appropriations	$ -	$ -	$ -

Capital Asset and Debt Administration

Capital Assets – The Municipality's capital assets for its governmental activities as of June 30, 2015, total $441,118,631 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles. The depreciation expense for the fiscal year was $15,830,350, and additions to infrastructure and other capital assets were $6,959,915. Retirements of capital assets during year were mainly vehicles and electronics for the amount of $1,287,001. Also, the Municipality retired from its Schedules of Capital Assets, construction units held for sale to low income families, constituents of the Municipality. These units previously represented $1,331,699 million in the Schedule of Buildings.

The Municipality's Capital Assets
(Net of depreciation)
Figure 6

	Total 2015	Total 2014 as restated	Dollar Change	Percentage Change
Capital assets not being depreciated				
Land and improvements	$ 95,525,121	$ 95,176,316	$ 348,805	0.37%
Construction in progress	6,008,652	3,533,799	2,474,853	70.03%
Works of art and historical treasures	2,261,726	2,217,567	44,159	1.99%
Total not being depreciated	103,795,499	100,927,682	2,867,817	72.39%
Capital assets net of depreciation				
Facilities and improvements	58,936,458	61,323,746	(2,387,288)	-3.89%
Buildings and improvements	71,049,710	75,014,607	(3,964,897)	-5.29%
Roads and streets	197,616,586	204,506,356	(6,889,770)	-3.37%
Equipment and vehicles	9,720,378	10,237,081	(516,703)	-5.05%
Total net of depreciation	337,323,132	351,081,790	(13,758,658)	-3.92%
Total capital assets net of depreciation	$ 441,118,631	$ 452,009,472	$ (10,890,841)	76.31%

Additional information on the Municipality's capital assets can be found on Note 12 of the Basic Financial Statements on page 74.

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2015 are as follows:

Project	Amount
Construction of "Recreo Deportivo del Sureste"	$ 2,743,146
Construcción Hacienda Ramonita y Los Cubanos	212,885
	$ 2,956,031

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Deferred Outflows / Inflows of Resources

Deferred Outflows of Resources

Deferred outflows of resources are new to the Municipality's Statement of Net Position for this fiscal year. This classification balance, although similar to "assets," is set apart because these items do not meet the technical definition of being a Municipality asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. GASB 71 requires that contributions made during the fiscal year to the retirement system be reported as deferred outflows of resources. Consequently, the majority of the deferred outflows of resources reported are comprised of current year contributions to the retirement system. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the Municipality as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the Municipality's deferred outflows of resources and deferred inflows of resources is presented in Note 6 to the financial statements on page 71 of this report.

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Long-Term Debt – As of June 30, 2015, the Municipality had total bonded debt outstanding of $260,896,522 all of which is debt backed by the full faith and credit of the Municipality.

The Municipality's Outstanding Debts (as restated)
Long-Term Debts
Figure 7

	Governmental Activities		Dollar	Percentage
	2015	2014	Change	Change
General Obligations Bonds	$ 179,959,522	$ 190,044,936	$ (10,085,414)	-5.31%
Special Obligations Bonds	77,937,000	78,889,000	(952,000)	-1.21%
Federal Loans	3,000,000	3,400,000	(400,000)	-11.76%
Net Pension Liability	198,023,675	184,933,905	13,089,770	7.08%
Law No. 142-MRCC	1,465,429	1,510,908	(45,479)	-3.01%
PR Retirement System Administration	801,428	-	801,428	100%
Claims and Judgments	704,534	279,000	425,534	152.52%
MRCC-Property Taxes Liquidation	2,065,296	464,407	1,600,889	344.72%
Christmas Bonus	1,084,932	1,061,348	23,584	2.22%
Retainage Liability	292,498	-	292,498	100%
Compensated Absences	12,382,877	12,667,670	(284,793)	-2.25%
Total	$ 477,717,191	$ 473,251,174	$ 4,466,017	683.00%

The Municipality's debt related to General, Special and Federal obligations decreased by $11,437,416 (-4.2 %) during the fiscal year 2015. New debts were recognized during the year related to property taxes liquidations with the MRCC ($1,600,889), additional contribution to retirement system ($801,428), and retainage related to construction in progress projects ($292,498). Another significant increase in long term debts, is due to the implementation of GASB No. 68, which created a Net Pension Liability.

Additional information on the Municipality's long term debts can be found on Note 15 of the Basic Financial Statements on pages 76 through 80.

The Commonwealth of Puerto Rico limits the amount of general obligation debt that a municipal government can issue to 10 percent of the total assessed value of taxable property located within the municipality's jurisdiction. On March 2009, the Government of Puerto Rico enacted the Special Act, Declaring a State of Fiscal Emergency and Establishing an Integrated Fiscal Stabilizing Plan to Save the Credit of Puerto Rico (Public Law 7). Among other things, this Law introduced a new way to view the Real Property valuation (see Note 14 on page 75 of the accompanying financial statements).

Also, the Municipality has a sales tax redemption fund, composed of .2% of the .5% of the municipal sales tax rate portion of 1.5%, to support the debt service fund capacity. This fund, in addition to other variables, is used to calculate the Municipality's borrowing capacity, along with the property tax redemption fund, within a specific timeframe. On February 1, 2014 was enacted Act Nos. 18 and 19 that change the composition of the sales and usage taxes (see Note 3).

Summary of Local Economy

The Municipality of Caguas was founded in 1775. Caguas has the fifth largest population of Puerto Rico with boundaries that encompass an area of approximately 59.07 square miles, and according to the 2010 Puerto Rico Community Survey the population of Caguas was 142,893. It was estimated by the US Census that the population of Puerto Rico had an overall decrease of over 19,000 citizens during the last 15 months ended on July 2012. Notwithstanding, it was also estimated that from the larges municipalities, Caguas had the lowest decrease of 1.7%. The Municipality's jurisdiction is bounded on the North by the Municipalities of San Juan and Trujillo Alto, on the South by the Municipalities of Cayey and San Lorenzo, on the East, by the Municipalities of Gurabo and San Lorenzo, and on the West by the Municipalities of Aguas Buenas and Cidra.

The largest employers in Caguas are the State and the Municipal governments, Avon Enterprises, Wal-Mart, Sam's Club and Amigo Supermarket retail chains, K-mart Corp., Costco, AT&T, Walgreens, Home Depot, and Mylan Pharmaceuticals.

The City's economy has an industry composition somewhat similar to the rest of the island's largest Municipalities. In the 1960's textile manufacturing and agriculture made up the largest amount of the local economy, but by the mid-seventies the manufacturing share of employment had declined to a lower percentage.

Major Industries and Services (including Government)

Government Services: The governmental service is the largest source of employment in the Municipality, accounting for the largest quantity of employment. The Municipal government sector remains stable in relation to the past year. Government sector includes a diversity of employment areas such as education, electric power service, water supply, police, public works, culture and recreation, health, legal service, and others.

Health Services: As a major regional medical center, the medical services industry is one of the largest employers in the area. It includes the privately owned hospitals, HIMA-San Pablo and Hospital Menonita, formerly San Juan Bautista. These facilities provide primary, secondary and tertiary health services to the residents of Caguas and adjacent small towns, and are responsible for establishing and developing strategies and programs designed to promote health, prevent diseases and early detection and diagnosis of health problems. They promote adequate health treatment and rehabilitation services as well.

Caguas is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of comprehensive health insurance coverage for qualifying low-income residents of Puerto Rico through a managed care system. Under the Health Reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. The Municipality of Caguas pays $7.9 million to the Puerto Rico's Health Administration, as required by law, to cover part of the insurance premium paid by the Government of Puerto Rico for its citizens. Caguas participates in this program not only as a health provider, through its facilities, but also as an Independent Provider Association (IPA) sharing with insurers the health insurance risk.

Education: The Interamerican University of Puerto Rico (IU) established a new facility in Caguas that started its operations in January 2013. Other technical-university colleges eagerly compete to attract more students to their classrooms. The tendency of students coming to Caguas represents a new governmental challenges and socio-economic opportunities.

Trade (Retail and Wholesale): The trade sector is the strongest growing sector in the area. Many major national chains such as Wal-Mart, Costco, Walgreen's, Home Depot, and Office Depot have expanded into the area, helping maintain relatively stable levels of consumer spending.

Economic Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: The consolidated budget for fiscal year 2015-2016 will be $108 million, which represented an expectation to remain constant with the closed fiscal year ended June 30, 2015. The projections from resources such as property taxes (benefiting from residential and industrial developments), city tax, and revenues from permits and fees are expected to remain the same as prior year (without considering any interfund transfer).

Requests for Information

This report is designed to provide an overview of the Municipality's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or www.caguas.gov.pr.

BASIC FINANCIAL STATEMENTS

Creole Music Center
José Ignacio Quintón

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Cathedral
Dulce Nombre de Jesús

		GOVERNMENTAL ACTIVITIES
ASSETS:		
Current Assets:		
Cash and Investments	$	40,161,947
Cash with Fiscal Agent		38,838,489
Amount to be Received		3,850,000
Receivables (Net):		
Sales and Usage Taxes		1,452,615
Volume of Business Taxes		195,997
Due from Government Units		2,069,311
Federal Grants		12,588,078
Other		43,781
Total Current Assets		99,200,218
Non-Current Assets:		
Loans Receivables, Net		444,014
Land, Improvement and Construction in Progress		103,795,499
Other Capital Assets [Net of Accumulated Depreciation]		337,323,132
Housing Units Held for Sale		988,673
Idle Units Held for Future Use		102,567
Total Non-Current Assets		442,653,885
TOTAL ASSETS		**541,854,103**
DEFERRED OUTFLOWS OF RESOURCES:		
Contributions to Employees Retirement System		11,426,811
TOTAL OUTFLOWS OF RESOURCES		**11,426,811**
LIABILITIES:		
Current Liabilities:		
Accounts Payable		7,405,211
Accrued Expense		1,084,932
Accrued Interest		3,638,237
Bonds Payable		16,490,414
Advance Deposits		1,090,433
Unearned Revenues - Volume of Business Taxes		16,741,377
Accrued Compensated Absences		3,912,704
Legal Claims		98,181
Due to Governmental Entities		1,678,827
Total Current Liabilities		52,140,316
Non-Current Liabilities:		
Bonds Payable		244,406,108
Accrued Compensated Absences		8,470,173
Legtal Claims		606,353
Due to Governmental Entities		2,653,326
Retainage Payable		292,498
Aggregate Net Pension Liabilities		198,023,675
Total Non-Current Liabilities		454,452,133
TOTAL LIABILITIES		**506,592,449**

(continued)

	GOVERNMENTAL ACTIVITIES
DEFERRED INFLOWS OF RESOURCES:	
Unamortized Investment in Employees Retirement System	1,584,668
TOTAL INFLOWS OF RESOURCES	**1,584,668**
NET POSITION:	
Net Investment in Capital Assets	267,268,049
Restricted for:	
Capital Projects	4,497,441
Debt Service	12,275,763
Head Start Program	7,966,865
Other Purposes	18,482,661
Unrestricted (Deficit)	(265,386,982)
TOTAL NET POSITION	**$ 45,103,797**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues
Governmental Activities:					
General Government	$ 40,544,933	$ -	$ 149,999	$ 250,000	$ (40,144,934)
Public Safety	11,954,408	636,603	42,654	901,699	(10,373,452)
Public Works	23,525,790	-	1,114	1,030,232	(22,494,444)
Culture and Recreation	10,374,870	27,868	-	-	(10,347,002)
Health and Welfare	12,543,232	-	954,780	-	(11,588,452)
Economic and Social Development	9,328,833	409,708	2,073,363	-	(6,845,762)
Housing	10,545,647	1,400	9,007,064	-	(1,537,183)
Sanitation and Environmental	16,387,879	99,853	89,412	-	(16,198,614)
Education	20,033,373	-	17,147,237	-	(2,886,136)
Unallocated Interest	10,802,643	-	-	-	(10,802,643)
Total Governmental Activities	**$ 166,041,608**	**$ 1,175,432**	**$ 29,465,623**	**$ 2,181,931**	**(133,218,622)**
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					33,479,167
Property Taxes, levied for Debt Service					17,221,555
Volume of Business Taxes					23,624,260
Sales and Usage Taxes					20,916,340
Construction Excise Taxes					4,947,664
Intergovernmental					13,567,369
Interest					756,516
Other General Revenues					2,151,991
Total General Revenues					116,664,862
CHANGES IN NET POSITION					**(16,553,760)**
Net Position – Beginning of Year, As Restated					61,657,557
NET POSITION – ENDING OF YEAR					**$ 45,103,797**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

Balance Sheet – Governmental Fund
June 30, 2015

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash and Cash Equivalents	$ 27,724,041	$ 8,269,779	$ -	$ 472,973	$ 3,695,154	$ 40,161,947
Cash with Fiscal Agent	20,789	12,621,808	25,694,469	-	501,423	38,838,489
Amount to be Received	3,850,000	-	-	-	-	3,850,000
Receivables:						
Sales and Usage Taxes	1,452,615	-	-	-	-	1,452,615
Volume of Business Taxes	195,997	-	-	-	-	195,997
Due from Governmental Units	394,000	-	1,633,575	-	41,736	2,069,311
Federal Grants	-	1,307,592	-	8,851,646	2,428,840	12,588,078
Due from Other Funds	9,483,361	-	-	-	-	9,483,361
Loans Receivable	-	-	-	-	444,014	444,014
Other	43,719	-	-	-	62	43,781
Total Assets	**$ 43,164,522**	**$ 22,199,179**	**$ 27,328,044**	**$ 9,324,619**	**$ 7,111,229**	**$ 109,127,593**
LIABILITIES:						
Account Payable	$ 5,257,562	$ 1,489,610	$ -	$ 206,531	$ 451,508	$ 7,405,211
Bond Payable	-	-	12,230,414	-	-	12,230,414
Interest on Bonds Payable	-	-	3,638,237	-	-	3,638,237
Due to Other Funds	-	5,091,122	-	1,151,389	3,240,850	9,483,361
Advance Deposits	1,090,433	-	-	-	-	1,090,433
Unearned Revenues - Volume of Business Tax	16,741,377	-	-	-	-	16,741,377
Total Liabilities	**23,089,372**	**6,580,732**	**15,868,651**	**1,357,920**	**3,692,358**	**50,589,033**
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues:						
Commonwealth of Puerto Rico	294,000	-	-	-	-	294,000
Federal Grants	-	1,186,344	-	7,939,187	1,433,290	10,558,821
Total Deferred Inflows of Resources	**294,000**	**1,186,344**	**-**	**7,939,187**	**1,433,290**	**10,852,821**
FUND BALANCES:						
Restricted	2,791,023	12,880,627	11,459,393	27,512	3,181,754	30,340,309
Committed	8,731,817	-	-	-	264,273	8,996,090
Assigned	2,344,985	1,942,677	-	-	-	4,287,662
Unassigned (Deficit)	5,913,325	(391,201)	-	-	(1,460,446)	4,061,678
Total Fund Balances	**19,781,150**	**14,432,103**	**11,459,393**	**27,512**	**1,985,581**	**47,685,739**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 43,164,522**	**$ 22,199,179**	**$ 27,328,044**	**$ 9,324,619**	**$ 7,111,229**	**$ 109,127,593**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

Reconciliation of Balance Sheet Governmental Funds to Statement of Net Position
June 30, 2015

Total Fund Balances – Government Funds (Page 25)		**$ 47,685,739**
Amount reported for Governmental Activities in the Statement of Net Position (Page 23) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 103,795,499	
Depreciable Capital Assets	691,365,791	
Accumulated Depreciation	(354,042,659)	
Total Capital Assets		441,118,631
Other assets held for sell of idle property held for future use are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Housing Units Held for Sale	988,673	
Idle Units Held for Future Use	102,567	
Total Other Assets		1,091,240
Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period.		11,426,811
Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:		
Federal Grants	10,558,821	
Christmas Bonus	294,000	
Total Unavailable Revenues		10,852,821
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(1,584,668)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General and Special Obligation Bonds	(248,666,108)	
Net Pension Liability	(198,023,675)	
Compensated Absences	(12,382,877)	
MRCC- Property Taxes Liquidation	(2,065,296)	
Claims and Judgments	(704,534)	
Christmas Bonus	(1,084,932)	
Retainage Payable	(292,498)	
PR Retirement System Administration	(801,428)	
Law No. 42	(1,465,429)	
Total Long-Term Liabilities		(465,486,777)
Total Net Position of Governmental Activities (Page 20)		**$ 45,103,797**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	$ 34,227,778	$ -	$ 17,261,832	$ -	$ -	$ 51,489,610
Volume of Business Taxes	23,624,260	-	-	-	-	23,624,260
Sales and Usage Taxes	17,606,080	-	3,310,260	-	-	20,916,340
Construction Excise Taxes	4,947,664	-	-	-	-	4,947,664
Federal Grants	1,381,058	1,900,679	-	13,180,322	11,081,218	27,543,277
Fines and Penalties	636,603	-	-	-	-	636,603
Intergovernmental	15,015,279	480,000	-	-	542,613	16,037,892
Interest	689,707	18,265	2,598	196	45,750	756,516
Rent and Other Services	438,781	-	-	-	268,402	707,183
Solid Waste Disposal	99,853	-	-	-	-	99,853
Other General Revenues	1,685,588	-	-	-	391,600	2,077,188
Total Revenues	**100,352,651**	**2,398,944**	**20,574,690**	**13,180,518**	**12,329,583**	**148,836,386**
EXPENDITURES:						
Current:						
General Government	35,716,381	62,878	-	-	343,601	36,122,860
Public Safety	9,735,949	-	-	-	539,333	10,275,282
Public Works	11,812,558	1,634,670	-	-	1,158,060	14,605,288
Culture and Recreation	5,618,689	-	-	-	-	5,618,689
Health and Welfare	11,261,876	152,994	-	336,691	390,753	12,142,314
Education	3,415,262	135,203	-	12,393,875	1,970,155	17,914,495
Sanitation and Environmental	15,186,477	319,693	-	-	12,316	15,518,486
Economic and Social Development	6,160,626	813,393	-	273	229,424	7,203,716
Housing	762,419	174,093	-	-	8,886,932	9,823,444
Capital Outlay	1,576,243	4,479,706	-	517,228	94,240	6,667,417
Debt Service:						
Principal	45,479	400,000	15,703,414	-	-	16,148,893
Interest and Other Charges	92,794	88,740	10,621,109	-	-	10,802,643
Total Expenditures	**101,384,753**	**8,261,370**	**26,324,523**	**13,248,067**	**13,624,814**	**162,843,527**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(1,032,102)**	**(5,862,426)**	**(5,749,833)**	**(67,549)**	**(1,295,231)**	**(14,007,141)**

(continued)

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):						
Debt Issuances	$ 3,850,000	$ -	$ -	$ -	$ -	$ 3,850,000
Transfers – In	6,002,080	10,964	5,963,779	-	146	11,976,969
Transfers – Out	(5,974,800)	(4,992)	(5,852,786)	(89)	(144,302)	(11,976,969)
Total Other Financing Sources (Uses)	**3,877,280**	**5,972**	**110,993**	**(89)**	**(144,156)**	**3,850,000**
Net Change in Fund Balances	**2,845,178**	**(5,856,454)**	**(5,638,840)**	**(67,638)**	**(1,439,387)**	**(10,157,141)**
Fund Balances – Beginning,						
As Previously Reported	17,679,266	20,142,356	17,098,233	95,150	3,424,968	58,439,973
Restatement	(743,294)	146,201	-	-	-	(597,093)
Fund Balances – Beginning, as Restated	16,935,972	20,288,557	17,098,233	95,150	3,424,968	57,842,880
FUND BALANCES – ENDING	**$ 19,781,150**	**$ 14,432,103**	**$ 11,459,393**	**$ 27,512**	**$ 1,985,581**	**$ 47,685,739**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

Net Change in Fund Balances – Government Funds (Page 28)		**$ (10,157,141)**
Amount reported for Governmental Activities in the Statement of Activities (Page 24) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	$ 6,667,417	
Depreciation Expense	(15,830,350)	
Excess of Capital Outlays over Depreciation Expense		(9,162,933)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	1,639,312	
CRIM - Property Taxes Liquidation	(788,888)	
Christmas Bonus	(198,962)	
Total Revenues		651,462
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset.		(928,766)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurent Liabilities in the Statement of Net Position. In the current period, proceeds received was		(3,850,000)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		16,148,893
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Legal Claims	(425,534)	
Increase in Christmas Bonus	(23,584)	
Increase in MRCC Property Taxes Liquidation	(1,600,889)	
Increase in Debt with the Retirement Plan System	(801,428)	
Increase in Net Pension Liability	(6,688,633)	
Decrease in Compensated Absences	284,793	
Total Additional Expenses		(9,255,275)
Change in Net Position of Governmental Activities (Page 24)		**$ (16,553,760)**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of Caguas, Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico under the Law No. 81 of August 30, 1991, known as the "Autonomous Municipalities Laws of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. It is governed by a Mayor and a 16 member Municipal Legislature elected for a four-year term.

The Municipality provides services to its residents in the areas of health, public works, education, public safety, urban development, economic development, culture and recreation, and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* require the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

continue

1. FINANCIAL REPORTING ENTITY – continuation

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34,* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2015, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units. The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Government-Wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the Municipality's Governmental Activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category-governmental are presented. The emphasis on fund financial statements is on major governmental, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality reports the following major governmental funds:

General Fund – This fund is the general operating fund of the Municipality. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund – Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. It also includes the Community Development Block Grants (CDBG) which is awarded to develop viable urban communities by providing decent housing and suitable living environment for persons of low and moderate income.

Debt Service – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Health and Human Services Fund - This fund is used to account for the revenue and expenditures of the Head Start Program and the Elderly Center of the Municipality as well as other related welfare services

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2015 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balances – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2015.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The Municipality reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures and Changes in Fund Balances*] in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Schedule of Revenues and Expenditures Budget and Actual – General Fund – Non GAAP Budgetary Basis*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Required Supplementary Information – Employees Retirement System

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, that is effective for the Municipality's fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2015, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Shee*t. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims an judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2015, which are recorded as governmental fund liabilities of June 30, 2015 which is the date when resources were available in the debt service fund. Proceeds of general long-term debts and acquisitions under capital leases, if any, are reported as other financing sources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Act No. 154 of December 19, 2013 amended Sections 7.002 and 7.003 of Act. 81 of 1991, as amended, known as the "Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991" for the purpose of establishing the budget of each municipality shall not exceed income certified in the external audit report or "single audit" for the previous fiscal year in revenue from Volume of Business Taxes, Sales and Usage Taxes (SUT), and Licenses and Permits; and that in these cases, the estimated revenue mechanism cannot be used to support the operating budget of a municipality. Also, the Act establish that municipalities reflecting a surplus in the current budget should be used to repay debt, and that by exception may establish an Emergency Fund, and enter up to thirty percent (30%) of the surplus to that fund. In addition, the municipalities that have not accumulated deficits may be used the surplus to increase the Emergency Fund.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying *Schedule of Revenues and Expenditures Budget and Actual – General Fund*, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

D. Assets, Liabilities, and Net Position

1) Cash, Cash Equivalents, Cash with Fiscal Agent, and Investment

The Municipality's cash are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund in accordance with amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with Fiscal Agent in the Debt Service Fund represents special additional property tax collections retained by the GDB, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with Fiscal Agent in other governmental funds consists of undisbursed proceeds of certain bonds issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

2) *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2015. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2015. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) *Inventories*

The Municipality used the purchase method to account for the purchases of office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) *Capital Assets*

Capital assets acquired or constructed, whether owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets with an individual cost of $40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under this amount are capitalized if the estimated life of assets is extended by more than 25%, the cost results in an increase in the capacity of the asset, the efficiency of the assets is increased by more than 10%, significantly changes the character of the assets or in the case of streets and roads-if the work done impacts the "base" structure. Donated capital assets are recorded at the estimated fair value at the date of donation. Equipment and other with a cost of $100 or more are recorded at cost or estimated historical cost.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The cost of normal maintenance and repairs that do not add to the value of the capital asset or extend capital assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Finally, major outlays for capital assets and improvements are capitalized as the projects are constructed.

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental funds within the capital outlays and included as additions in the roll-forward activity of the capital assets in the GWFS.

However, in the *Statement of Activities*, the cost of those assets is allocated over the estimated useful lives and reported as a depreciation expense. As a result, fund balance decrease by the capital outlays balance – the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Facilities and Improvements	10-40
Buildings and Improvements	10-50
Infrastructure	10-50
Equipment and Vehicles	5-20
Work of Art (Inexhaustible)	N/A

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works function.

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2015, all Work of Art are considered inexhaustible.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

5) Housing Units Held for Sale

Capital assets that have been identified to be for sale are presented as part of the noncurrent assets.

6) Idle Units Held for Future Use

Capital assets that have been temporarily idled and held for future use are presented as part of the noncurrent assets.

7) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

8) Deferred Outflows/Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, Elements of Financial Statements, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the Municipality recognizes deferred outflows and inflows of resources.

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Based on this concept, the Municipality reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 68. Note 17 presents additional information about the composition of these items.

- Various types of revenues earned but not available within 60 days of fiscal year end.

Note 6 provides details on deferred outflows of resources and deferred inflows of resources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from three sources: Christmas Bonus Reimbursement and Liquidation from Municipal Revenue Collection Center (MRCC), both from the Commonwealth, and Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

9) *Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount*

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts, if any, as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

10) *Compensated Absences*

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2015. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

11) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Noncurrent Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

12) Accounting for Pension Costs

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as of June 30, 2014.

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment to GASB 68, is required to be implemented simultaneously with the provisions of GASB 68.

The Municipality implemented both GASB Statement Nos. 68 and 71 for the fiscal year ending June 30, 2015 and the financial statements of the Municipality for the year ended June 30, 2014 were restated accordingly.

Measurement Frequency and Valuation Requirements

As mentioned, GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014. Under GASB No. 68, there are two key dates – the measurement date and the actuarial valuation date. The Net Pension Liability should be measured as of a date no earlier than the end of the employer's prior fiscal year, consistently applied from period to period (measurement date). The Net Pension Liability can be measured from an actuarial valuation as of the measurement date or roll forward amounts from an actuarial valuation as of a date no more than 30 months plus 1 day prior to the employer's most recent fiscal year-end. The actuarial valuation should be performed at least biennially.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality used June 30, 2014 as both the measurement date and the actuarial valuation date for purposes of implementing GASB No. 68 for both the Defined Benefit Pension Plan and Defined Contribution Hybrid Program. In future years, the calculation of the Net Pension Liability and Pension Expense will always be one year behind the most current fiscal year. For example, actuarial valuations with measurement date as of June 30, 2014 was used to report the Net Pension Liability on the Municipality's Fiscal Year 2014-2015 CAFR.

Impact on the Financial Statements – Change in Accounting Principles

Changes resulting from GASB No. 68 requirements apply only to the government-wide financial statements. GASB No. 68 does not apply to governmental funds financial statements; they will continue to report pension expenditures based on contributions made during the year. There is no change in cash flow, contribution rates or General Fund budgeted expenditures associated with implementation of GASB No. 68. In addition, the new measure used to recognize pension expense and pension liability eliminated the Annual Required Contribution (ARC) concept for recognizing pension expense, resulting in the separation of accounting from funding.

For illustrative purposes, the Finance Department calculated certain line items in the financial statements affected by the New Pension Standards using the actuarial valuation reports as of June 30, 2014 and the highlights of the impact to the government-wide financial statements would have been on the June 30, 2014 CAFR.

- The Net Position (total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources) at June 30, 2014 for the Municipality would have been $61,657,557, an $181,492,899 decrease (74.6%) from the previously reported net position of $243,150,456 (pre-GASB No. 68 implementation).
- Total Liabilities would have been $502,410,738 as of June 30, 2014, an increase of $184,933,905 or 58.3% compared to the previously reported $317,476,833 total liabilities (pre-GASB No. 68 implementation).
- Under GASB No. 68, Pension Expense would have been $7,332,779, an increase of $3,891,773 or 113.1% compared to the annual pension cost of $3,441,006 under GASB No. 27 reported at June 30, 2014. Under GASB No. 68, the pension expense is measured as the difference between the net pension liabilities between two reporting periods.
- The Deferred Inflows of Resources was not available for the implementation of GASB Nos. 68 and 71. The budgeted pension contribution for fiscal 2014-2015 of $11,426,811 will be recognized as Deferred Outflow of Resources and $1,584,668 will be recognized as Deferred Inflow of Resources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

	Current Accounting Standards (GASB 27)	New Accounting Standards (GASB 68 & 71)	Impact of New Standards
Assets	$ 558,447,957	$ 558,447,957	No change
Deferred Outflow of Resources	-	3,441,006	An increase in estimated pension contribution in Fiscal Year 2014-2015
Liabilities	317,476,833	502,410,738	An increase of $184,933,905 (Net Pension Liability)
Deferred Inflow of Resources	-	-	No change
Net Position	243,150,456	61,657,557	A net decrease of ($181,492,899) to Net Position
Expenses	3,441,006	7,332,779	An increase of $3,891,773 ($10,773,785 - $3,441,006, contribution minus the pension expense)
Adjustments to Restated Beginning Net Position	(181,492,899)	-	A decrease of $181,492,899 to beginning Net Position

Restatement of Beginning Position and Allocation of Pension Expense Among Municipality Funds

Methodology Implementation of the New Pension Standards is a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position. The total prior period adjustment on a government-wide basis is estimated to be $181,492,899 for governmental activities.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing multi-employers plan. During the current fiscal year, the Municipality implemented the second pronouncement issued, GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable;
- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For the purpose of applying the requirements of GASB No. 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a cost-sharing multi-employer Defined Benefit Pension Plan, and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 18).

For purposes of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Also, the Municipality participates in a contributory defined contribution plan named "Programa Head Start Municipio Autónomo de Caguas Money Purchase Plan".

13) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, plus deferred outflows of resources less liabilities, and deferred inflows of resources is "Net Position" on the government-wide financial statements.

- *Net Investment in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

Net investment in capital assets is comprised of the following:

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation	$441,118,631
Outstanding Balance on Related Debt	(185,334,606)
Unspent Capital Debt Proceeds	11,484,024
Net Investment in Capital Assets	$267,268,049

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Restricted Net Position* – These result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the Municipality's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2015.

Prioritization of Fund Balance Use

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH & HUMAN SERVICES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -
Restricted For:						
Commercial and Residential Loans	-	-	-	-	842,511	842,511
Debt Repayments	54,948	-	11,459,393	-	-	11,514,341
Disaster Recovery	-	-	-	-	1,963	1,963
Drug Prevention Programs	-	-	-	-	38,657	38,657
Economic Development Purposes	191	-	-	-	-	191
Educational Assisted Programs	-	-	-	-	25,016	25,016
Energy Saving Loans	-	-	-	-	266,203	266,203
Head Start and Elderly Programs	-	-	-	27,512	-	27,512
Health Services	106,018	-	-	-	-	106,018
Housing Assisted Programs	-	-	-	-	1,074,605	1,074,605
Improvement to the City Hall Building	-	158,519	-	-	-	158,519
Improvements to Facilities and Buildings	555,012	-	-	-	1,368	556,380
Incentivized Voluntary Resignations Program	1,432,120	-	-	-	-	1,432,120
Incubator Program	-	-	-	-	271,006	271,006
Infrastructure Improvements	-	7,343,221	-	-	279,840	7,623,061
Recreational Activities	-	-	-	-	50,227	50,227
Recycling Projects	18,520	-	-	-	-	18,520
Reforestation Initiatives	-	-	-	-	12,885	12,885
Safety and Security Programs	-	-	-	-	162,124	162,124
Social Development Purposes	-	-	-	-	154,665	154,665
Sureste Sport Facility Construction	-	5,378,887	-	-	-	5,378,887
Transit Improvement Programs	-	-	-	-	684	684
Upgrade to Information System	624,214	-	-	-	-	624,214
Total Restricted	**2,791,023**	**12,880,627**	**11,459,393**	**27,512**	**3,181,754**	**30,340,309**
Committed To:						
Disaster Recovery	2,111,270	-	-	-	62,123	2,173,393
Economic Development Purposes	260,100	-	-	-	-	260,100
Improvement of Technology Programs	158,181	-	-	-	-	158,181
Improvement to Electrical Infrastructure	543,076	-	-	-	-	543,076
Infrastructure Improvements	-	-	-	-	143	143
Market Place Activities	265,740	-	-	-	-	265,740
Recreational Activities	174,030	-	-	-	-	174,030
Transcriollo Transportation Program	5,219,420	-	-	-	202,007	5,421,427
Total Committed	**8,731,817**	**-**	**-**	**-**	**264,273**	**8,996,090**

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continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) *Components of Fund Balance* – continuation

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH & HUMAN SERVICES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assigned						
Building Maintenance	307,021	-	-	-	-	307,021
Economic Development Purposes	47,314	-	-	-	-	47,314
Educational Assisted Programs	52,443	-	-	-	-	52,443
Health Services	29,658	-	-	-	-	29,658
Housing Assisted Programs	422	-	-	-	-	422
Improvement of Building and Facilities	-	1,942,677	-	-	-	1,942,677
Improvement of Technology Programs	71,955	-	-	-	-	71,955
Infrastructure Improvements	58,655	-	-	-	-	58,655
Legal Services	128,221	-	-	-	-	128,221
Materials and Supplies	193,280	-	-	-	-	193,280
Payment of legal claims	3,394	-	-	-	-	3,394
Payroll Benefits	41,145	-	-	-	-	41,145
Purchase and Maintenance of Equipment	302,700	-	-	-	-	302,700
Recreational Activities	173,682	-	-	-	-	173,682
Recycling Projects	6,890	-	-	-	-	6,890
Reforestation Initiatives	1,400	-	-	-	-	1,400
Rentals	66,623	-	-	-	-	66,623
Safety and Security Programs	112,955	-	-	-	-	112,955
Social Development Purposes	126,744	-	-	-	-	126,744
Solid Waste Disposal	30,186	-	-	-	-	30,186
Support to Education	113,245	-	-	-	-	113,245
Transit Improvement Programs	204,198	-	-	-	-	204,198
Utilities	143,832	-	-	-	-	143,832
Vehicle Maintenance	9,778	-	-	-	-	9,778
Improvement to facilities and buildings	2,700	-	-	-	-	2,700
Consulting Services	116,544	-	-	-	-	116,544
Total Assigned	**2,344,985**	**1,942,677**	**-**	**-**	**-**	**4,287,662**
Unassigned	**5,913,325**	**(391,201)**	**-**	**-**	**(1,460,446)**	**4,061,678**
Total Fund Balances	**$ 19,781,150**	**$ 14,432,103**	**$ 11,459,393**	**$ 27,512**	**$ 1,985,581**	**$ 47,685,739**

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continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

E. Inter-Fund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year there are not intra-entity transactions.

F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2015 amounted to $1,816,730, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is $35 per licensed motor vehicle, which is paid directly to AACA.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality obtains workers compensation insurance though the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2015 amounted to $1,553,523.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

G. Use of Estimates

The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2015, that are determined to be significant and material that should be considered for financial statement purposes. Within this process, management consults with its legal counsel and performs monitoring procedures over significant receipts and disbursements and over the Municipal Legislature ordinances and resolutions, among other procedures.

J. Accounting Standards Issued But Not Yet Adopted

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2015:

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

Fair Value Application

This Statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) or the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

This Statement is effective for fiscal years beginning after June 15, 2016 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement is effective for fiscal years beginning after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (FY 2015-2016), and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 80*, Blending Requirements for Certain Component Units*. This Statement establishes an additional presentation of component units. This Statement applies to all state and local governments. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. This Statement does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends Statement No. 14, *The Financial Reporting Entity, paragraph 53, and Implementation Guide No. 2015-1, Question 4.30.1*.

A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provision is paragraphs 21-37 of Statement 14, as amended.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

The Municipality has not yet determined the effect these statements will have on the Municipality's basic financial statements.

3. ANNUAL REVENUES

A. Property Taxes

The Municipal Revenue Collection Center (MRCC) is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are determined based on the market value existing as of 1957 and of personal property at the current value at the date of assessment. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. For fiscal year 2014-2015, this difference was recorded as a long-term debt for the amount of $2,065,296.

continue

3. ANNUAL REVENUES – continuation

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first $15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount of the exonerated tax base as of January 1, 1992, except for residential units assessed at less than $3,500 on which a complete exemption is granted. The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Complete exemption from personal property taxes up to an assessment of $50,000 is granted to retailers with an annual volume of net sales under $150,000. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

The effective tax rate for the fiscal year ended June 30, 2015 is 10.03% for real property and 8.03% for personal property of which 1.03% of each class of property belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows:

1) 6.00% and 4.00% for real and personal property, represent the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the general fund. The basic property tax rate is segregated by MRCC and accounted for an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The equalization fund assures that every municipality receive at least an amount equal to the tax collected to its base year or prior year.

   The Commonwealth makes a contribution equivalent to .20% portion of the tax rates to compensate the municipality for a discount granted to the taxpayers. Accordingly, the tax rates imposed to the taxpayer for real and personal property are 9.83% and 7.83%, respectively.

2) 3% of each represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Since the collection of property taxes, for all of the Municipalities in Puerto Rico, is a responsibility of the MRCC, it shall report to the Municipality the estimated and actual property taxes collections, as well as the operational expense allocation to each local government. During the fiscal year ended June 30, 2015 the allocated expenses to the Municipality amounted to $1,414,008.

Section 5803(b) of Law No. 80 of the MRCC, allows the municipalities to develop and carry on activities and programs to expedite the assessments of new constructions and existing properties not yet assessed. Accordingly, along with a covenant with the MRCC, the Municipality engaged into an initiative, in order to increase the tax base of assessed properties over which the tax rate is applied and to expedite the collection of the taxes receivable in arrears at the MRCC (there is no receivable recorded within the Municipality's general ledger). The Municipality contracted an external consulting firm to assist and expedite these services. Among the different types of services offered, the consulting firm has engaged into the process of assisting the MRCC to assess the new construction and other existing properties. These assessments will become then part of the MRCC tax roll register. This is the subsidiary of all properties assessed for tax purposes.

continue

3. ANNUAL REVENUES – continuation

The new assessed properties are submitted for review and validation by the MRCC which proceeds to assign the assessed valuation and the tax to be imposed. Then, the MRCC determine those new properties that would to be added in the tax roll, either because they are from new construction or because are previous existing properties, with betterments identified but not reported previously. This process is performed either through physical inspections, knowledge of existent activities within the Municipality, and comparing the sales volume taxes returns (in case of commercial properties) with the property taxes returns, among other strategies. The updated information is delivered to the MRCC in order to be included within the tax roll for subsequent taxes levies.

Also the consulting firm provides support to the Municipality by attending the taxpayers' request for services and by providing follow up on the MRCC taxes receivables in arrears. The purpose of these combined efforts is to improve the efficiency of the tax service and collections.

Ordinance Number 12A-48 was approved for the purpose of reviewing the tax incentives to the jurisdiction of the Municipality and the special development zone and other traditional urban center, and authorizes the creation of a new code of socio-economic development incentives.

Personal Property

Incentive Municipal on Personal Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years.
- The down town and development designated areas, would enjoy 100% exemption on municipal taxes on personal property for a period of two years, followed by a 90% exemption on municipal taxes on personal property for a period eight years.

Incentive Municipal on Personal Property Taxes – Established Business

- The exemption only applies to the personal property tax in excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as personal property tax base period.
- The down town and development designated areas, the personal property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

Real Property

Incentive Municipal on Real Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years and 40% exemption on municipal taxes on real property for a period of 10 years.
- The down town and development designated areas, would enjoy a 90% exemption on real property for a period of 10 years.

continue

3. ANNUAL REVENUES – continuation

Incentive Municipal on Real Property Taxes – Established Business

- The exemption only applies to the real property tax in the excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as real property tax base period.

- The down town and development designated areas, the real property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

B. Volume of Business Taxes

The Municipality imposes a volume of business tax pursuant to Act No. 113 of July 10, 1974, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

The minimum gross revenue to file the Volume of Business Tax Declaration is $5,000 and the minimum tax payable is $25. The date to file the Volume of Business Tax Declaration is April 15 each year. Entities with sales volume of $3.0 million or more must include audited financial statements together with the tax return. The Municipality grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The following incentives related to Volume of Business Taxes were implemented with Ordinance 12A-48:

Volume of Business Tax Incentive - New Business

- A 75% exemption for a period of five years or a 40% exemption for a period of 10 years.

Volume of Business Tax Incentive - Business Established

- The exemption only applies to the business volume in excess of the average volume during the three years prior to the date of the application, which is referred to as base volume business. The volume of business tax attributable to the base volume business will be subject to regular tax rates.

- In the down town and development designated areas, the volume of business tax basis will be adjusted, reducing such amount by (20%) annually until it is reduced to zero for the fifth taxable year.

Collections of volume of business tax revenues received mainly in April 15, are accounted as unearned revenues, since such collections have a time requirement and should be used starting July 1st of next fiscal year. In the next fiscal year, the unearned revenue is recognized as revenue, net of any credit or refunds payable to taxpayers.

continue

3. ANNUAL REVENUES – continuation

C. Sales and Usage Taxes

Municipality imposes a Sales and Usage Taxes of 1.0% collected and belong to the Municipality on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (changes as per Act Number 18 of 2014). All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 20th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;

b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2015, but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

continue

3. ANNUAL REVENUES – continuation

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

D. Construction Excise Taxes

Ordinance 11-A-54 provides for a procedure for the administration and collection of construction excise tax, within the Municipality jurisdiction.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project. The tax is paid by the taxpayer before the beginning of the construction project, if a permit is required to begin the construction, the taxpayer should file the tax return 30 days after the submission of the permit; otherwise, the file should be made at least 15 days before the construction activity. The activities covers by this tax and the exemption granted are as follows:

1) All construction will pay 6% of construction excise taxes.

2) Construction projects of detached properties (not part of a housing development), with a cost of $90,000 or less will pay 3% of construction excise taxes. If the cost exceeds the $90,000, the applicable rate will be 6% over the $90,000 cost.

3) All construction projects carried out whose owner is a bona-fide farmer, certified by the Department of Agriculture, have full exemption to the construction excise taxes.

4) Major repairs and improvements of detached properties occupied by their owner, for which cost don't exceed $15,000, have full exemption to the construction excise taxes. If related costs exceed $15,000, the excess over this amount will be subject to a 3% of construction excise tax.

5) All improvements made to commercial or private property in the down town, as well of major improvements to buildings, parks, prayer centers or studies of philosophic or human nature have full exemption to the construction excise taxes.

6) All construction projects carried out by not-for-profit organization or educational institutions have full exemption to the construction excise taxes.

continue

4. CASH, CASH EQUIVALENTS

Cash in Banks

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico (*Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995). The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts, and certificates of deposit.

Under the laws and regulations of the Government, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the Municipality's name.

Municipality follows the practice of pooling cash. At June 30, 2015, the pool cash account in commercial banks had a balance of $40.2 million of which $27.7 million in the General Fund, $472,973 in Health and Human Services Fund, $8.3 million in the Capital Projects Fund, and $3.7 million in Other Governmental Funds. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Cash with Fiscal Agent in the debt service fund consists principally of property tax collections amounting to $25.7 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent of $20,789 in the General Fund are restricted for future expenditures, $12.6 million in the Capital Projects Fund restricted to improvement of recreational facilities, and $501,423 in Other Governmental Funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2015:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the Municipality has invested only in cash equivalents of $40.2 million consisting of interest bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2015. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

continue

4. CASH, CASH EQUIVALENTS – continuation

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of the bank failure, the Municipality's deposits may not be recovered. The Municipality is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Municipality. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. During the year ended June 30, 2015, the Municipality deposited its funds in bank accounts bearing interest. In addition, as of June 30, 2015, the Municipality's custodial credit risk was approximately $38.8 million, which, is the cash balance of cash deposited at the Government Development Bank of Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth, these are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the **Municipality** through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. During the past years, the GDB's liquidity and financial condition was adversely affected by, among other factors, a significant increase in credit spread for obligations of the Commonwealth and its public entities, the Commonwealth's limited capital market access, and significant reduction of liquidity in the local Puerto Rico capital market. Accordingly, the GDB's credit rating was downgraded and maintained in "Credit Watch" with negative implications. These factors have resulted in significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Therefore, the **Municipality**'s management has concluded that at June 30, 2015, the custodial credit risk associated with the **Municipality**'s cash and cash equivalents is considered low in commercial banks, but for GDB it's considered high.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2015, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

Amount to be Received from Loans

The amount of $3.9 million, approximately, represents funds to be received in the next fiscal year for loans applied and approved before June 30, 2015 by the Municipality's Legislature and the Government Development Bank.

continue

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period, corresponded to Volume of Business Taxes in the amount of $16,741,377.

6. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Municipality has items that are reportable on the Government-wide Statement of Net Position that are relates to outflows/inflows from changes in the Net Pension Liability (Note 17).

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds Balance Sheet report Deferred Inflows of Resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of Deferred Outflows/Inflows of Resources reported in the basic financial statements were as follows:

Statement of Net Position:	
Deferred Outflows of Resources	
Contributions to ERS	$ 11,426,811
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 1,584,668

Balance Sheet:	
Commonwealth of Puerto Rico	$ 294,000
Federal Grants:	
Capital Project Fund	1,186,344
Head Start Program	7,939,187
Other Governmental Funds	1,433,290
Total Deferred Inflows of Resources	$ 10,852,821

7. LOANS AND OTHER RECEIVABLES

Loans receivable recorded in non-major governmental funds consists various loans issued to qualified participants for home buying and commercial loans provided with federal funds. This amount is presented net of estimated allowances for uncollectible amounts of $444,014, which were determined based upon past collection experience.

continue

8. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority (PREPA), and federal financial assistance received from federal and state governments. The amount of contribution in lieu of tax for the year 2014-2015 was $10,647,180.

Grants and subsidies received from the Commonwealth and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenues and the Capital Project Funds. Federal Financial Awards are recorded in the General Fund, Special Revenue Fund, Capital Projects Funds, and Health and Human Services Fund.

9. INTER-FUND TRANSACTIONS

A. Due from/to Other Funds

Inter-fund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. Following is a summary of inter-fund assets and liabilities as of June 30, 2015:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects	$ 5,091,122
	Health and Human Services Fund	1,151,389
	Other Governmental Funds	3,240,850
		$ 9,483,361

The purpose of each inter-fund balances are the following:

Payables to the general fund:

Capital Projects Fund – includes expenditures mainly of the Capital Loans Funds, Community Development Block grants and other related projects sponsored by the Municipality, which are initially disbursed through the General Fund.

Health and Human Services Funds – includes expenditures mainly for payroll which were initially disbursed through the General Fund.

Other Governmental Funds – includes expenditures mainly to finance certain public safety, housing and health and welfare projects that involve both the use of federal and municipal funds and which were initially disbursed through the General Fund.

continue

9. INTER-FUND TRANSACTIONS – continuation

B. Transfers In/Out

Inter-fund transfers in/out reflect the transfers of resources from one fund to another without the attempt of recovering such revenues. Following is a summary of inter-fund transfers for the year ended June 30, 2015:

Transferred Out	Amount	Purposes
General Fund	$ 5,963,779	Payment of Interest and Principal of Debt
Debt Service Fund	5,852,786	Transfer of Equity
Capital Project Fund	4,992	Transfer of Equity
General Fund	10,964	Capital Projects
Health & Human Services Fund	89	Transfer of Equity
General Fund	57	Transfer of Equity
Non Major Funds	144,302	Transfer of Equity
	$ 11,976,969	

10. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2015, for the General Fund, corresponds to $294,000 from Puerto Rico Treasury Department for the Christmas Bonus, and $100,000 from the Commonwealth related to Law 52. For the Debt Service fund corresponds to payments not received of property taxes. For the Other Governmental Funds, the $41,736 corresponds to a receivable from another governmental unit.

11. FEDERAL GRANTS RECEIVABLE

The due from federal grants of the Capital Projects Fund for the fiscal year ended June 30, 2015 corresponds the Community Development Block Grant/ Entitlements Grant (CDBG), from US Department of Housing and Urban Development (HUD). The amount reported within the Health and Human Services Fund corresponds mainly to the Head Start Program from the US Department of Health and Human Services for the amount of $8,851,646. The amount reported on Other Governmental Funds correspond mainly to the Home Investment Partnership Program for the amount of $1,585,846 and to the Emergency Shelter Grant Program for the amount of $350,577, both from the US Department of Housing and Urban Development, and $492,417 in other Federal programs.

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12. CAPITAL ASSETS

A summary of the activity of capital assets for governmental activities group follows:

DESCRIPTION	BALANCE JULY 1, 2014	ADJUSTMENTS	RECLASSI FICATIONS	INCREASE	DECREASE	BALANCE JUNE 30, 2015
Non-Depreciable Capital Assets:						
Land and Improvements	$ 95,176,316	$ -	$ 173,000	$ 175,805	$ -	$ 95,525,121
Construction in Progress	3,566,329	(32,530)	(794,140)	3,560,605	(291,612)	6,008,652
Works of Art	2,217,567	-	-	44,159	-	2,261,726
Total Non-Depreciable Capital Assets	100,960,212	(32,530)	(621,140)	3,780,569	(291,612)	103,795,499
Depreciable Capital Assets:						
Facilities and Improvements	124,439,152	(2,525,340)	472,831	576,331	-	122,962,974
Buildings and Improvements	122,729,736	1,108,068	(73,000)	949	(1,331,699)	122,434,054
Infrastructure	414,758,948	(83,335)	66,309	730,033	-	415,471,955
Equipment and Vehicles	29,756,776	-	155,000	1,872,033	(1,287,001)	30,496,808
Total Depreciable Capital Assets	691,684,612	(1,500,607)	621,140	3,179,346	(2,618,700)	691,365,791
Less Accumulated Depreciation:						
Facilities and Improvements	(63,056,574)	2,466,508	-	(3,436,450)	-	(64,026,516)
Buildings and Improvements	(48,823,392)	195	-	(2,611,847)	50,700	(51,384,344)
Infrastructure	(210,252,592)	83,335	-	(7,686,112)	-	(217,855,369)
Equipment and Vehicles	(21,279,219)	1,759,524	-	(2,095,941)	839,206	(20,776,430)
Total Accumulated Depreciation	(343,411,777)	4,309,562	-	(15,830,350)	889,906	(354,042,659)
Total Depreciable Capital Assets (Net)	348,272,835	2,808,955	621,140	(12,651,004)	(1,728,794)	337,323,132
CAPITAL ASSETS, NET	**$ 449,233,047**	**$ 2,776,425**	**$ -**	**$ (8,870,435)**	**$ (2,020,406)**	**$ 441,118,631**

The Municipality's policy is to transfer construction in progress properly concluded to other classification of capital assets if such capital project is being used. See Note 21 for information related to adjustments to capital assets.

Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

Governmental Activities:	Amount
General Government	$ 835,385
Public Safety	191,305
Public Works (Mainly Streets)	7,971,492
Culture and Recreation	4,232,214
Health and Welfare	113,619
Economic Development	990,139
Housing	151,779
Sanitation and Environmental	71,211
Education	1,273,206
Total Depreciation Expenses	$ 15,830,350

continue

13. OTHER NON-CURRENT ASSETS

The Municipality reported during this year property held for future sale as other non-current assets. These property was acquired with the intent of selling them to low income families, constituents of the Municipality.

Also, idle units held for future use were reported during this period given that property included in the schedules of construction in process remained with the same balance since prior year and no additions from construction were reported. Funds assigned to those projects were distributed for other purposes.

14. DEBT MARGIN

The legal debt margin of the Municipality is equal to 10% of the total property assessment located within the municipality's jurisdiction. Following are the assessed values of the real and personal property as of June 30, 2015:

	Real Property	Personal Property	Total
Taxable	$ 7,181,187,980	$ 442,402,043	$ 7,623,590,023
Exempt	(600,587,180)	(118,486,504)	(719,073,684)
Exonerated	(3,303,136,910)	(3,108,249)	(3,306,245,159)
Net value	$ 3,277,463,890	$ 320,807,290	$ 3,598,271,180

Accordingly, as of June 30, 2015, the Municipality debt limits (10% of valuation of property subject to taxation) increase to $762,359,002, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. The total amount of debt applicable to the debt limit was $179,959,522, net of certain assets in the Debt Service Fund. After considered the payments of July 1, 2015, the resulting legal debt margin was $607,138,815. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

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continue

15. LONG-TERM DEBT

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2015:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1996	$15,955,000	2015	4.70% to 8.00%	$ 1,505,000
General Construction	1998	2,200,000	2018	5.62%	503,000
General Construction	2000	776,000	2019	4.50%	214,027
General Construction	2000	13,300,000	2016	4.87% to 6.34%	2,530,000
General Construction	2000	10,350,000	2026	2.70% to 7.81%	6,505,000
General Construction	2000	3,150,000	2024	2.70% to 7.81%	1,980,000
General Construction	2002	9,845,000	2026	2.70% to 5.60%	6,825,000
General Construction	2002	125,000	2026	2.70% to 5.60%	60,000
General Construction	2002	1,360,000	2026	2.70% to 5.60%	910,000
General Construction	2004	9,900,000	2028	1.61% to 5.31%	6,955,000
General Construction	2004	1,575,000	2028	2.36% to 5.31%	1,145,000
General Construction	2005	460,000	2029	2.53% to 5.31%	340,000
General Construction	2005	370,000	2029	2.53% to 5.31%	280,000
General Construction	2005	1,610,000	2024	4.17% to 5.28%	1,000,000
General Construction	2006	9,910,000	2021	1.53% to 6.62%	5,385,000
General Construction	2005	1,640,000	2030	4.50%	1,188,000
General Construction	2005	500,000	2030	4.75%	366,000
General Construction	2006	11,020,000	2025	0.32% to 5.00%	7,455,000
General Construction	2006	11,015,000	2025	0.52% to 5.00%	7,470,000
General Construction	2007	8,060,000	2031	0.45% to 6.32%	6,450,000
General Construction	2006	2,695,650	2031	4.75%	2,058,650
General Construction	2007	7,575,000	2026	0.36% to 5.54%	5,465,000
General Construction	2008	624,000	2030	4.50%	482,000
Operational Purpose	2010	9,740,000	2034	4.75% to 7.50%	8,905,000
Operational Purpose	2010	975,000	2016	5.00% to 7.50%	330,000
General Construction	2010	255,000	2016	5.00% to 7.50%	85,000
General Construction	2011	2,285,000	2035	3.65% to 7.50%	2,140,000
General Construction	2011	730,000	2035	3.08% to 7.50%	685,000
General Construction	2011	330,000	2035	3.65% to 7.50%	310,000
General Construction	2011	2,480,000	2035	3.65% to 7.50%	2,320,000
General Construction	2011	3,525,000	2030	3.65% to 7.50%	3,295,000
Operational Purpose	2011	20,540,000	2035	3.65% to 7.50%	19,200,000
General Construction	2012	18,285,000	2036	3.47% to 7.50%	16,090,800

continue

15. LONG-TERM DEBT – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income: - continuation					
General Construction	2012	815,000	2021	3.36% to 7.50%	570,500
General Construction	2012	245,000	2036	0.37% to 7.50%	215,600
General Construction	2012	2,015,000	2018	3.38% to 7.50%	1,151,429
General Construction	2012	615,000	2018	3.38% to 7.50%	351,429
General Construction	2012	9,760,000	2018	3.35% to 7.50%	9,295,000
General Construction	2012	279,900	2037	4.50%	265,000
General Construction	2013	1,505,000	2037	6.00% to 7.50%	1,460,000
General Construction	2013	3,120,000	2030	4.25%	2,764,000
General Construction	2013	135,000	2019	6.00% to 7.50%	105,000
Refinancing	2014	506,847	2016	3.70% to 7.50%	351,847
Refinancing	2014	802,435	2017	3.80% to 7.50%	627,435
Refinancing	2014	249,680	2017	3.80% to 7.50%	194,680
Refinancing	2014	691,456	2034	3.95% to 7.50%	676,456
Refinancing	2014	982,565	2034	3.95% to 7.50%	962,565
Refinancing	2014	1,494,375	2035	3.95% to 7.50%	1,464,375
Refinancing	2014	721,569	2035	3.95% to 7.50%	706,569
Refinancing	2014	485,660	2035	3.95% to 7.50%	475,660
Refinancing	2014	992,583	2035	3.95% to 7.50%	972,584
Refinancing	2014	7,766,712	2035	4.05% to 7.50%	7,621,712
General Construction	2014	12,975,204	2036	3.95% to 7.50%	12,750,204
Operational Purpose	2014	9,450,000	2038	6.00% to 7.50%	9,300,000
Operational Purpose	2014	1,485,000	2020	6.00% to 7.50%	1,315,000
General Construction	2014	5,930,000	2040	6.00% to 7.50%	5,930,000
Subtotal					**179,959,522**
Special Obligations Bonds:					
General Revenues:					
General Construction	2002	$ 2,065,000	2027	3.66% to 6.41%	$ 1,385,000
General Construction	2002	5,185,000	2027	3.66% to 6.41%	3,465,000
General Construction	2002	15,385,000	2027	3.66% to 6.41%	10,290,000
General Construction	2006	10,015,000	2025	5.00% to 5.58%	6,210,000
General Construction	2007	8,575,000	2024	1.53% to 6.73%	5,315,000
General Construction	2007	10,075,000	2026	5.84% to 6.07%	7,015,000
General Construction	2007	500,000	2022	1.53% to 7.50%	303,000
General Construction	2008	3,185,000	2032	3.89% to 5.82%	2,585,000
General Construction	2008	7,750,000	2024	4.16% to 5.72%	4,950,000
General Construction	2009	6,802,000	2033	1.53% to 7.50%	5,920,000
Operational Purpose	2014	3,805,000	2038	6.00% to 7.50%	3,695,000
Operational Purpose	2015	3,850,000	2030	6.00% to 8.00%	3,850,000
Subtotal					**54,983,000**

continue

15. LONG-TERM DEBT – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales & Usage Taxes:					
Operational Purpose	2008	7,135,000	2015	1.53% to 7.50%	1,255,000
General Construction	2009	8,770,000	2033	1.48% to 7.50%	7,750,000
General Construction	2009	542,000	2033	1.48% to 7.50%	484,000
General Construction	2010	4,710,000	2034	4.75% to 7.50%	4,310,000
General Construction	2012	385,000	2018	6.00% to 7.50%	250,000
General Construction	2012	2,040,000	2019	6.00% to 7.50%	1,565,000
Operational Purpose	2014	7,445,000	2038	6.00% to 7.50%	7,340,000
Subtotal					**22,954,000**
Total Special Obligations Bonds					**77,937,000**
Section 108 Loan - CDBG:					
General Construction	2002	12,995,000	2022	7.50%	**3,000,000**
Total General and Special Obligations Bonds					**$ 260,896,522**

Principal and interest on the bonds are generally paid from amounts withheld by MRCC from the monthly property tax remittances and deposited in GDB until the payment to the bond holder.

Federal Loan

Federal loan at June 30, 2015 consist of a note payable in annual installments fluctuating from $200,000 to $600,000 bearing interest at 7.5% secured by real estate property owned by the Municipality.

The following is a summary of changes in long-term debt of the Municipality for the year ended June 30, 2015:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 190,044,936	$ -	$ (10,085,414)	$ 179,959,522	$ 10,733,414	$ 169,226,108
Special Obligations Bonds	78,889,000	3,850,000	(4,802,000)	77,937,000	5,157,000	72,780,000
Federal Loans	3,400,000	-	(400,000)	3,000,000	600,000	2,400,000
Net Pension Liability	184,933,905	19,342,173	(6,252,403)	198,023,675	-	198,023,675
Other Obligations	15,983,333	10,719,023	(7,905,362)	18,796,994	6,774,644	12,022,350
TOTAL	**$ 473,251,174**	**$ 33,911,196**	**$ (29,445,179)**	**$ 477,717,191**	**$ 23,265,058**	**$ 454,452,133**

continue

15. LONG-TERM DEBT – continuation

As of June 30, 2015, debt service requirements for the above long-term debt are as follows:

	General Obligation Bonds		Special Obligation Bonds		Federal Loans		Other Obligations			
Year Ending June 30,	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Total Principal	Total Interest
2016	$ 10,733,414	$ 11,335,125	$ 5,157,000	$ 5,002,019	$ 600,000	$ 78,540	$ 6,774,644	$ 89,936	$ 23,265,058	$ 16,505,620
2017	9,773,261	10,807,441	4,265,000	4,887,870	600,000	63,960	1,287,606	86,900	15,925,867	15,846,171
2018	8,549,529	10,392,116	4,502,000	4,616,202	600,000	47,250	54,602	83,672	13,706,131	15,139,240
2019	17,014,443	9,542,743	4,774,000	4,326,600	600,000	29,160	58,032	80,242	22,446,475	13,978,745
2020	8,323,700	8,990,276	4,989,000	3,887,216	600,000	9,900	61,678	76,595	13,974,378	12,963,987
2021-2025	44,627,000	44,005,895	26,370,000	14,974,983	-	-	371,627	319,742	71,368,627	59,300,620
2026-2030	37,456,000	23,751,462	14,652,000	7,297,104	-	-	504,001	187,366	52,612,001	31,235,932
2031-2035	31,198,671	11,453,635	10,098,000	2,916,639	-	-	315,780	29,903	41,612,451	14,400,177
2036-2040	12,283,504	1,402,502	3,130,000	487,876	-	-	-	-	15,413,504	1,890,378
Unmatured	-	-	-	-	-	-	207,392,699	-	207,392,699	-
TOTAL	$ 179,959,522	$ 131,681,195	$ 77,937,000	$ 48,396,509	$ 3,000,000	$ 228,810	$ 216,820,669	$ 954,356	$ 477,717,191	$ 181,260,870

Arbitrage Rebate Requirement

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2015, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

OTHER NON-CURRENT LIABILITIES

The following is a summary of changes in other non-current liabilities of the Municipality for the year ended June 30, 2015:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law No. 142-MRCC	$ 1,510,908	$ -	$ (45,479)	$ 1,465,429	$ 48,336	$ 1,417,093
PR Retirement System Administration	-	801,428	-	801,428	801,428	-
Claims and Judgments	279,000	425,534	-	704,534	98,181	606,353
MRCC-Property Taxes Liquidation	464,407	1,600,889	-	2,065,296	829,063	1,236,233
Christmas Bonus	1,061,348	1,084,932	(1,061,348)	1,084,932	1,084,932	-
Retainage Liability	-	292,498	-	292,498	-	292,498
Compensated Absences	12,667,670	6,513,742	(6,798,535)	12,382,877	3,912,704	8,470,173
TOTAL	$ 15,983,333	$ 10,719,023	$ (7,905,362)	$ 18,796,994	$ 6,774,644	$ 12,022,350

continue

15. LONG-TERM DEBT – continuation

Due to Municipal Revenue Collection Center

The Act No. 42 dated January 2000, allows the Municipal Revenue Collection Center (MRCC, as per its Spanish acronyms) to issue debt based on the disbursements made in excess to the municipalities on their final liquidation prior to fiscal year 2000. The municipalities agreed to repay MRCC such loans in semi-annual installments plus accrued interest. In connection with Law 42 the Municipality issued a note payable to MRCC in the amount of $1,876,000 payable in 30 years plus interest at a semi-annual rate of 3.0938%.

Also, Property Taxes Liquidation for fiscal year 2014-2015 result in a payable to the MRCC in the amount of $1,600,889.

Accrued Legal Claims

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims is presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2014 and payroll related benefits, representing the benefit to employees to be paid during the last week of November 2014.

Compensated Absences

The GWFS, Statement of Net Position, includes approximately $12.7 million in the governmental activities for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations. The General Fund have been used to liquidate the liability for this concept.

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Continue

16. DEBT RETIREMENT

Revenues of the Debt Service Fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC to the Municipality (See Note 3).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the **Municipality** (See Note 15). Payments are made to the GDB from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

continue

17. PENSION PLANS

As further described in Note 2 D 12, the Municipality implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, during fiscal year 2015, and a new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 68.

A. Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced. Act No. 1 of February 16, 1990 (Act No. 1) and Act No. 305 of September 24, 1999 (Act No. 305 or Hybrid Program) establish, among other things, a defined contribution program. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 215 participating employers (73 Commonwealth agencies, 78 municipalities, and 64 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements prior to Act No. 3, enacted on April 4, 2013, the annual benefit payments and administrative expenses paid by the system were significantly larger than the member and employer contributions made to the system. Thus investment income must have been used to cover this negative cash flow and assets were projected to become exhausted by the end of this decade. Act No. 3 and Act No. 32 of 2014 (as amended by Act No. 244 of 2014) provided for significant pension reforms and additional contributions to the ERS to counter the imminent expected asset exhaustion.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

continue

17. PENSION PLANS – continuation

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Define Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Define Contribution Hybrid Program. The assets of the Define Benefit Program, the Define Contribution Program and the Define Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Define Benefit Program.

As of June 30, 2014, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $30,220 million, representing a 3.10% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in $120.0 million for fiscal year 2014 and $352.0 million annually through fiscal year 2032, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions (Additional Uniform Contribution) of $120.0 million from the Commonwealth General Fund, public corporations and municipalities beginning in fiscal year 2014 and from all employers $352.0 million annually through fiscal year 2032. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. The 2014 budgetary appropriation for such additional contribution of approximately $120.0 million was included in the Commonwealth, public corporations and municipalities for the fiscal year 2014. However, as a result of budgetary constraints at the present time only $14.9 million was paid by the Commonwealth and 20.5 million paid by public corporations and municipalities during fiscal year 2014. The additional contribution for the fiscal year 2015 was $27.0 million paid by the Commonwealth and $27.0 million paid by public corporations and municipalities.

The projected Additional Uniform Contribution for fiscal year 2016 and subsequent years has increased to approximately $352.0 million (of which approximately $216.0 million corresponds to the Commonwealth's central government, to be funded from the General Fund and the remaining portion corresponds to the participating public corporations and municipalities). The ERS's actuaries are currently updating the projected Additional Uniform Contribution for fiscal year 2017 and beyond.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

continue

17. PENSION PLANS – continuation

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the System 2000 to Chapter 5 of the ERS.

Act No. 3 is a dynamic 50-year plan that is designed to provide enough cash for ERS to be able to make full Basic System Benefit payments as they come due, to pay the new lower System Administered Benefits, and to pay debt service on the pension obligation. The reforms enacted through Act No. 3, by design, is a very long term plan, and constant monitoring will be needed to make sure the ERS stays on track. Actual experience may turn out better or worse than expected, thus future adjustments may be needed. Receipt of the Additional Uniform Contribution under Act No. 32 (as amended by Act No. 244) is critical to the ERS's ability to make payments as they come due.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

(a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.

(b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

(c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

<u>Retirement age for participants who joined public service after June 30, 2013</u> – The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

continue

17. PENSION PLANS – continuation

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars ($500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars ($500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars ($500).

continue

17. PENSION PLANS – continuation

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

Benefits Provided

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

continue

17. PENSION PLANS – continuation

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

(1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

(2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

(1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.

(2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.

(3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 3 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

(1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:

   (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.

   (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.

continue

17. PENSION PLANS – continuation

(iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

(2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.

(3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:

(i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.

(ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

(i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.

(ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

(iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

(iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

continue

17. PENSION PLANS – continuation

(v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.

(vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

(i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.

(ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.

(iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.

(iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.

(v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

continue

17. PENSION PLANS – continuation

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Coordinated Plan – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first $6,600 of salary plus 8.275% for the excess over $6,600. For fiscal 2013-2014 the contribution was 7.00% for the first $6,600 of salary plus 10.00% for the excess over $6,600. For fiscal 2014-2015 the contribution was 8.50% for the first $6,600 of salary plus 10.00% for the excess over $6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

Non-Coordinated Plan (Supplementation Plan) – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

(a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

  (1) Effective July 1, 2013, shall contribute 7.00% of their salaries up to $6,600 plus 10.00% of the excess over $6,600.

  (2) Effective July 1, 2014, shall contribute 8.50% of their salaries up to $6,600 plus 10.00% of the excess over $6,600.

  (3) Effective July 1, 2015, shall contribute 10.00% of their full salaries.

The participants of the Hybrid Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

continue

17. PENSION PLANS – continuation

(c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the ERS the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

As mentioned above, the Municipality is required to an Additional Uniform Contribution as per Act No. 32.

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

continue

17. PENSION PLANS – continuation

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2014-2015 the disability insurance amounted to approximately $329,000.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

(a) A Medication Bonus equal to one hundred ($100), which shall be paid no later than July 15 of each year;

(b) A Christmas Bonus equal to two hundred dollars ($200), which shall be paid no later than December 20 of each year; and

(c) A Commonwealth contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars ($100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

continue

17. PENSION PLANS – continuation

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars ($2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as “Retirement Savings Accounts Program”, and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program is measured as of June 30, 2014, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality’s proportion of the Net Pension Liability was based on a projection of the Municipality’s long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

As June 30, 2015, the Municipality reported $198,023,675 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability but the information for each program are not available. The Net Pension Liability is measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality’s proportion of the Net Pension Liability was based on a projection of the Municipality’s long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Municipality's proportionate share was 0.65806%. The Municipality’s proportionate share of the Net Pension Liability as of June 30, 2015 was as follows:

	Proportionate Share of Net Pension Liabiliy
Act Number 447	$ 156,186,030
Act Number 1	28,439,393
Act Number 305	13,398,252
Total Net Pension Liability	$ 198,023,675

continue

17. PENSION PLANS – continuation

For the fiscal year ended June 30, 2015, the Municipality recognized pension expense of $11,356,368. As of June 30, 2015, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,441,006	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	7,985,805	1,584,668
Total	$ 11,426,811	$ 1,584,668

$11,426,811 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2016	$ 316,934
2017	316,934
2018	316,934
2019	316,934
2020	316,932

Actuarial Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2011 and the next experience study is scheduled for 2016.

The long-term expected rate of return on pension plan investments (6.75%) was determined using the non-loan portion of the portfolio that was adopted by the Board during December 31, 2013 as shown below and Milliman's capital market assumptions as of June 30, 2014. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, as provided by the ERS, have an approximate return of 10.0% with no volatility.

continue

17. PENSION PLANS – continuation

Asset Class	Target Allocation
Domestic Equity	25%
International Equity	10%
Fixed Income	64%
Cash	1%

Note that this new interest rate assumption of 6.75% per year is just slightly higher that the debt service on some of the Pension Obligation Bonds. The debt service on the Pension Obligation Bonds ranges from 5.85% to 6.55%.

Under GABS No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. As a result of the increase in the investment return assumption, the assumed investment return on the Defined Contribution Hybrid Contribution Accounts program (80% of the net investment return assumption) was increased from 5.12% to 5.40%. The Total Pension Liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2014
Amortization Method	18 years closed (beginning July 1, 2014), level dollar
Actuarial Cost Method	Entry-Age Normal Cost Method
Remaining Amortization Period	18 years
Actuarial Assumptions:	
Discount Rate	4.29%
Inflation	N/A
Payroll Growth	N/A
Projected Salary Increase	N/A
Investment Rate of Return	3.10%
Mortality	For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act. No. 127, RP-2000 Employee Mortality Rates from the blue collar adjustments for males and females, projected on a generational basis using Scale AA. as generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

continue

17. PENSION PLANS – continuation

The Act No. 32 (as amended by Act 244) Additional Uniform Contribution that will be received each fiscal year from 2013-2033 is defined in Act No. 244 as follows:

> "Additional Uniform Contribution (AUC). – shall mean, (a) for purposes of fiscal year 2013-2014, one hundred and twenty million dollars ($120 million) and (b) for purposes of each fiscal year between 2014-2015 and 2032-2033, the uniform contribution certified by the external actuary of the ERS at least one hundred and twenty (120) days prior to the start of such fiscal year as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below one billion dollars ($1.0 billion)."

As previously mentioned, because of the budgetary constraints at the present time approximately $90.0 million of this amount were not collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.2 million for the Commonwealth's proposed budget for the fiscal year 2014. Similar situation occurred during present fiscal year 2015.

ERS net assets have been exhausted in the 2014-2015 fiscal year. If the increasing Act No. 116 employer contributions, the Supplemental Contribution under Act No. 3, and the Additional Uniform Contribution under Act No. 32 are not paid in full on an annual basis, ERS will continue being rapidly defunded and gross assets will be exhausted.

The approximate actual rate of return since the prior valuation was 88.15% for 2013-2014. This rate of return is determined on a net asset basis. Because of the significant amount of Pension Obligation Bond proceeds that are currently invested (approximately $3.0 billion), the net asset return of 88.15% is significant larger than the 8.35% return on the gross asset basis.

The actuarial cost method was revised from projected unit credit to the entry age normal method to comply with the requirements of GASB No. 67. Due to the switchover from end-of-year to beginning-of-year census data for fiscal year 2013-2014, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations. During 2013-2014 this difference resulted in a gain of $62 million.

Illiquid Assets

The Act No. 32 AUC calculation is based on the objective of maintaining a $1.0 billion gross asset buffer at all times. It is important to note that a material portion of ERS assets are illiquid in nature. Thus if the Act No. 32 AUC is not paid in full and the $1.0 billion buffer is not maintained, the ERS will run into liquidity issues and may be forced to sell illiquid assets, potentially at significant loss to the further detriment of the ERS. As of December 31, 2014, ERS had approximately $764 million in illiquid assets, comprised primarily of loans to ERS members and the COFINA investment. This projection assumes that these illiquid assets will be converted to liquid assets when needed. The AUC has increased markedly from the initial $140 million estimate prepared in 2013.

continue

17. PENSION PLANS – continuation

As of July 1, 2013, the first year of GASB No. 67 accounting, a projection to determine the GASB No. 67 date of depletion, if any, should be performed as of June 30, 2013 to determine the single equivalent discount rate as of June 30, 2013 used for the Total Pension Liability as of the beginning of the fiscal year. However, as directed by the ERS, the asset basis are exhausted in the 2014-2015 fiscal year and no projection needed to be performed. The tax free municipal bond index of 4.63% as of June 30, 2013 was used as the discount rate in the determination of the Total Pension Liability as of June 30, 2014.

Net Pension Liability	June 30, 2014	
	Total	Proportional Share (0.65806%)
Total Pension Liability	$30,219,517,000	$198,862,554
Fiduciary Net Position	127,488,000	838,879
Net Pension Liability	30,092,029,000	198,023,675
Fiduciary Net Position as a % of Total Pension Liability	0.42%	0.42%
Covered Payroll	$ 3,489,096,000	$25,744,720
Net Pension Liability as a % of Covered Payroll	862.46%	769.18%

The Total Pension Liability was determined by an actuarial valuation as of July 1, 2013, calculated based on the discount rate and actuarial assumptions, and was then projected forward to June 30, 2014. There have been no significant changes between the valuation date of July 1, 2013 and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB No. 67. Covered Payroll is as of July 1, 2013.

Discount Rate

The discount rate used to measure the Total Pension Liability was 4.29% for each plan as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the **Municipality** will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability. The plan's Fiduciary Net Position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total Pension Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's Fiduciary Net Position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's Fiduciary Net Position is not projected to be sufficient.

	June 30, 2013	June 30, 2014
Discount Rate	4.63%	4.29%
Long-term expected rate of return net of investment expense	6.40%	6.75%
Municipal bond rate *	4.63%	4.29%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

continue

17. PENSION PLANS – continuation

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as of June 30, 2013	$28,941,368,000	$ 701,361,000	$28,240,007,000	$184,933,905
Changes for the year:				
Service Cost	419,183,000	-	419,183,000	2,758,476
Interest on Total Pension Liability	1,321,478,000	-	1,321,478,000	8,696,118
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) of Losses	(61,855,000)	-	(61,855,000)	(407,043)
Effect of Assumptions Changes or Inputs	1,198,308,000	-	1,198,308,000	7,885,586
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses	-	(29,530,000)	29,530,000	194,325
Other Expenses	-	(25,875,000)	25,875,000	170,273
Costs of Bonds	-	(192,947,000)	192,947,000	1,269,707
Member Contributions	-	359,862,000	(359,862,000)	(2,368,108)
Net Investment Income	-	253,558,000	(253,558,000)	(1,668,564)
Employer Contributions	-	660,024,000	(660,024,000)	(3,441,000)
Balance as of June 30, 2014	**$30,219,517,000**	**$ 127,488,000**	**$30,092,029,000**	**$198,023,675**

ERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in September 2016. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, ERS expects to continue using a discount rate net of administrative expenses for GASBS's No. 67 and 68 calculations through at least the 2016-2017 fiscal year. ERS will continue to check the materiality of the difference in calculation until such time as actuarial have changed his methodology.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Municipality's proportionate share of the Net Pension Liability, calculated using the discount rate, as well as what the Municipality's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	$225,529,215	$198,862,623	$176,779,748
Fiduciary Net Position	838,879	838,879	838,879
Net Pension Liability	$224,690,336	$198,023,675	$175,940,869

continue

17. PENSION PLANS – continuation

Payable to the Pension Plan

At June 30, 2015, the Municipality reported a payable of $801,428 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Pension Plan Fiduciary Net Position

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

B. Pension Plan of Defined Contributions of the Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan

Effective January 1, 2002, the Municipality created a retirement plan Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan (the Plan) for all employees of whose salaries were funded with the Head Start Program and which have at least one year of service and are age twenty-one or older. The Plan is part of the Popular Master Defined Contribution Retirement. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1081.01 (a) of the Puerto Rico Internal Revenue Code of 2011, as amended. Popular Bank of Puerto Rico serves as the Plan Trustee.

The Municipality is required to contribute three percent (3%) of the employees' annual compensation. The Municipality complied with this required contribution percentage for the current and past two years. Participants may contribute based on after tax contributions amounts representing up to ten percent (10%) of the aggregate compensation paid to the employee, excluding the Christmas Bonus.

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting is based on years of continuous service. At June 30, 2015 the Plan has 391 active participants. The participant vesting schedule on such portion of their accounts is described below:

Completed years of service	Vested percent
Less than 3 years	0%
At least 3 years	20%
At least 4 years	40%
At least 5 years	60%
At least 6 years	80%
At least 7 years	100%

The vesting provisions consider years of service before the employer established this Plan.

continue

17. PENSION PLANS – continuation

On termination of service due to death, disability or retirement, a participant or beneficiary may elect to receive a lump-sum amount equal to the value of the participants' vested interest in his/her account, or maintain the funds in the Plan. Also, ten years annuities are allowed under the plan. The normal retirement age is the latter of the date a participant attains his 65th birthday or the fifth anniversary of the first day of the plan year in which he/she commenced participation in the Plan. Early retirement distributions are not permitted. Under the provisions of the Plan, participants are not permitted to withdraw any amount contributed by the employer from the plan, unless separated from employment.

Total contributions to the Plan for fiscal year ended December 31, 2014 (the last available financial information) were $187,637 (Sponsor) and benefits paid were $157,203. Investment revenues were $57,689 and net appreciation in fair value of investments were $12,041, for a net increase in Plan Assets of $100,164. As December 31, 2014 the Net Fund Assets of the Plan is $2,414,940.

Additional information on the Plan is provided in its financial statements for the year ended December 31, 2014, a copy of which can be obtained from in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

18. COMMITMENTS

Construction and Improvement Commitments

Fund	Encumbered For	Amount	Reported within Fund Balance
Capital Projects Fund	Complejo Recreo Deportivo del Sureste	$ 4,726,616	Restricted for Building and Facilities
	Sistema Distribución de Agua Bo. Tomas de Castro	894,444	Restricted to Infrastructure Improvement
	Sistema de alcantarillado sanitario pluvial quebrada Villa Nueva	283,122	Assigned for Infrastructure Improvement
	Construcción Hacienda Ramonita & Los Cubanos	56,582	Restricted for Building and Facilities
	Total	$ 5,960,764	

Operating Leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lesser. Expenditures for the year ended June 30, 2015 amounted to approximately $397,444.

continue

18. COMMITMENTS – continuation

Future operating lease commitments are scheduled as follows:

Fiscal Year	Amount
2016	$ 490,207
2017	224,863
2018	222,559
2019	85,771
2020	80,907
Total	$ 1,104,308

Solid Waste Disposal Contract

The Municipality formalized a contract for the recollection and disposal and management of solid waste with a private entity (the Company). The original contract was amended effective July 1, 2014 for the following services and is due on December 31, 2021. Such contract requires the Municipality to pay the Company $11.50 per unit served. The contract provides for a minimum of 45,500 units served. Also the fee paid to the Company will increase annually by five percent (5.0%) until December 31, 2021. Vegetable material requires the Municipality to pay the Company $9.99 per cubic yard with an annual increase of two point five percent (2.5%).

In addition, the Municipality is agreed to pay an additional $32.00 per tons of solid waste that the Municipality transports and deposits in the Company's recollection center for processing. The fee is also subject to an annual increase of two point five percent (2.5%). The Municipality is agreed to pay an additional $25.00 per tons of solid waste that the Municipality transports and deposits directly in landfill facilities by the Municipality. The fee is also subject to an annual increase of two point five percent (2.5%).

The Municipality received royalty of $2.21 per tons for direct private collection in the recollection facilities. The royalty is also subject to an annual increase of three percent (3%). The Company also should collect recyclable material in 28,561 units for $3.24 per unit. The fee is also subject to an increase to $3.33 in fiscal year 2018, $3.43 in fiscal year 2020, and $3.54 in fiscal year 2021.

Expenditures for the year ended June 30, 2015 for this service under the terms of this contract amounts to approximately $9.6 million.

Future commitments under the terms of this contract are estimated as follows:

Fiscal Year	Amount
2016	$ 5,743,964
2017	5,743,964
2018	5,743,964
2019	5,743,964
2020	2,871,982
Total	$ 25,847,838

continue

18. COMMITMENTS – continuation

Other Commitments

At June 30, 2015, the non-major Special Revenue Funds had a deficit of $1,460,446 as follows: Social & Welfare Activities Fund $193,678, and Economic Development Activities Fund $1,266,768. The deficits resulted from the accrual of expenditures without accruing intergovernmental and federal revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental and federal revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

The Municipality has entered into various agreements to provide professional and consulting services, health services, repairs and maintenance of facilities, marketing and other miscellaneous services to its constituents.

Contributions to Not for Profits Corporations

Act No. 137 of August 9th, 2002, amended Article 17.001 and added Article 17.016 to the 1991 Autonomous Municipalities Law No. 81 of the Commonwealth of Puerto Rico. This amendment authorizes Municipalities “to be part of, participate, support and sponsor nonprofit organizations under the General Law of Corporations of 1995, as amended, and as long as it is organized to promote economic and cultural development or social improvement of a municipality or region of which the municipality is part of and the corporation counts with the participation and engagement of, in addition of the municipalities, the different sectors composed of higher level educational institutions and industrial and commercial enterprises, including associations grouping businesses and industries. Municipalities’ participation on the Board of Directors cannot exceed 1/3 of the total members”.

Under this Article, the Autonomous Municipality of Caguas, participates in various forms with (1) Corporación de Bellas Artes de Caguas (COBAC); (2) Corporación de Salud Aseguradora por Nuestra Organización Solidaria, Inc. (SANOS); (3) Corporación de Conservación Etnoecológica Criolla, Inc. (CCECI); (4) Iniciativa Tecnológica Centro-Oriental, Inc. (INTECO); (5) Banco de Desarrollo Centro Oriental, Inc. (BADECO); and (6) Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC).

On October 8, 2004 representatives of the Municipality and COBAC signed a 15-year lease contract, transferring the operations of the Fine Arts Center (FAC) to COBAC effective July 1, 2004 for a $1,000 annual rental fee payable to the Municipality. In addition, the Municipality is scheduled to make annual contributions for 5 years at par with the commitments that each representative on the Board has agreed to contribute. Subsequently, COBAC would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. Finally, the Municipality’s representation on the Board of Directors is 4 out of 17 members, or 24% of the voting power.

On July 1, 2006 representatives of the Municipality and SANOS signed a 5-year lease contract for the facilities where SANOS is currently located for a $1 annual fee payable to the Municipality. More recently, during the fiscal year 2014-2015 the Municipality contributed $194,025 to SANOS for education and drug prevention services.

continue

18. COMMITMENTS – continuation

On April 18, 2007 representatives of the Municipality and CCECI signed a 10-year lease contract for the land and facilities comprising the Caguas Botanical and Cultural Garden for an annual fee of $1,000 effective April 18, 2007. The Municipality agreed to contribute (1) operation funds for $500,000 for each fiscal year 2007-2008 and 2008-2009; $350,000 for fiscal years 2009-2010 and 2010-2011; $350,000 for fiscal year 2011-2012; (2) payment of utilities corresponding to the land and facilities included in the contract; (3) payment of the applicable insurance policies as the owner of the land and facilities; and (4) remaining funds assigned to the development of the Garden in the various dependencies/departments within the Municipality until June 30, 2007. During the fiscal year 2014-2015, the Municipality made contributions to CCECI for a total of $412,657 to cover operating expenses.

On September 3, 2003 representatives of the Caguas and other Municipalities signed a contractual agreement with INTECO to contribute funds; property; social, human, physical and technological capital from time to time. After the initial contribution, each Municipality would contribute approximately $1 per person annually according to the most recent Census available. The Municipality of Caguas and INTECO have and will enter into contractual agreements for specific projects from time to time. Finally, the Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. During fiscal year the Municipality contributed $1,408,000 to INTECO, from which $825,000 were related to a contribution for operating expenses of the School, $440,000 for the planning and design of the Train of Caguas, and $287,000 to cover operating expenses.

On July 1st, 2010, el Banco de Desarrollo Centro Oriental, Inc. (BADECO) came to its existence as the only Regional Community Bank in Puerto Rico. BADECO is a non-profit organization created and funded by the Autonomous Municipality of Caguas (MAC) as a spinoff of what was known for 27 years as the Community Development Bank of Caguas.

Out of this affiliation, BADECO administers for the MAC the loan programs that were not able to be transferred due to their nature of their funding, which came from Federal Government agencies, such as business loan fund granted by the Economic Development Administration (EDA) and the energy efficiency loan fund for home owners granted by the federal Department of Energy (DOE). BADECO reports to the MAC the programs performance and holds all the documentation regarding such programs. These programs are audited yearly by the MAC and are also open to audit procedures for the funding agencies.

On March 26, 2012 representation of Municipality of Caguas and Board of Directors signed a contractual agreement where the Municipality authorized Centro Criollo de Ciencia y Tecnología del Caribe (C3tec) to manage and operate such property. C3Tec is an interactive educational center intended to awaken the curiosity and stimulate interest in Science among children from the elementary level onward. The Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. As part of the agreement, during fiscal year the Municipality contribution to C3tec was $400,000 to cover operating.

On September 24, 2013 representatives of the Municipality and of Integral Service Municipal Alliance (AMSI by Spanish acronyms) signed a one year contract to contribute funds to cover the rent expense of AMSI for its headquarter offices located in the Municipality of Caguas. This entity was organized under the laws of Puerto Rico over 18 years ago with the intent of providing services related to the search of employment contributing to a strengthened industry and a workforce that grows. During fiscal year 2014-2015, the Municipality contributed $300,000 to AMSI to cover rent expenses.

continue

18. COMMITMENTS – continuation

Housing and Rental Contracts

The Section 8 Housing Choice Voucher Program (HCVP) provides rental assistance to help very low income families afford decent, safe, and sanitary rental housing. The Municipality as a local Public Housing Agency (PHA) is authorized under Federal and State laws to operate housing programs within an area or jurisdiction. The Municipality, as a PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent [a housing assistance payment (HAP)] on behalf of the family.

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR Section 982.1).

The US Department of Housing and Urban Development (HUD) enters into annual contributions contracts (ACCs) with PHAs under which HUD provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR Section 982.151).

During the fiscal years ended June 30, 2015 the Municipality received HAP's assistance payments in the amount of approximately $7.1 million. No significant changes are expected during the subsequent fiscal year.

19. CONTINGENCIES

Litigation

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of $704,534 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

The amount presented in the total liabilities of the governmental activities in the statement of net position represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant. In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

Federal Financial Assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

continue

20. HEALTH CARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately $8 million for the fiscal year ended June 30, 2015.

21. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position Restatements

During the year, the Municipality adjusted the governmental net position for capital assets not previously recognized. A prior period adjustment of $79,571,741 was made to decrease the governmental activities' beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of the GASB No. 68.

The following schedule reconciles the June 30, 2014 Net Position, as previously reported to Beginning Net Position, as Restated, July 1, 2014, for Governmental Activities.

		GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2014	$	240,971,124
Implementation of GASB No. 68		(181,492,899)
Adjustments to Capital Assets		2,776,425
Understatement of Accounts Payable		(743,294)
Unrecorded Cash		146,201
Beginning Net Position, as Restated, At July 1, 2014	**$**	**61,657,557**

B. Fund Balance Restatements

The following reconciles the June 30, 2014 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2014 for the following funds:

		GENERAL FUND		CAPITAL PROJECT FUND
At June 30, 2014	$	17,679,266	$	20,142,356
Understatement of Accounts Payable		(743,294)		-
Unrecorded Cash		-		146,201
Beginning Fund Balance, As Restated, At July 1, 2014	**$**	**16,935,972**	**$**	**20,288,557**

continue

22. RECENTLY ADOPTED ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency though revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating.
- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

continue

22. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

GASB 69 does not have any impact on the Municipality's financial statements.

23. SUBSEQUENT EVENTS

On February 9, 2016, the Municipality received a letter of approval from the Governmental Development Bank of Puerto Rico (the GDB) in order to contract a 10 years loan of $2,000,000 for the improvement for rural roads thru Special Additional Contribution (CAE), with an interest rate of 3.625%. In addition, another approval from the GDB was received to contract a 7 years loan of $1,000,000 to finance the acquisition of vehicles thru Special Additional Contribution (CAE), with an interest rate of 3.625%.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 23, 2016, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

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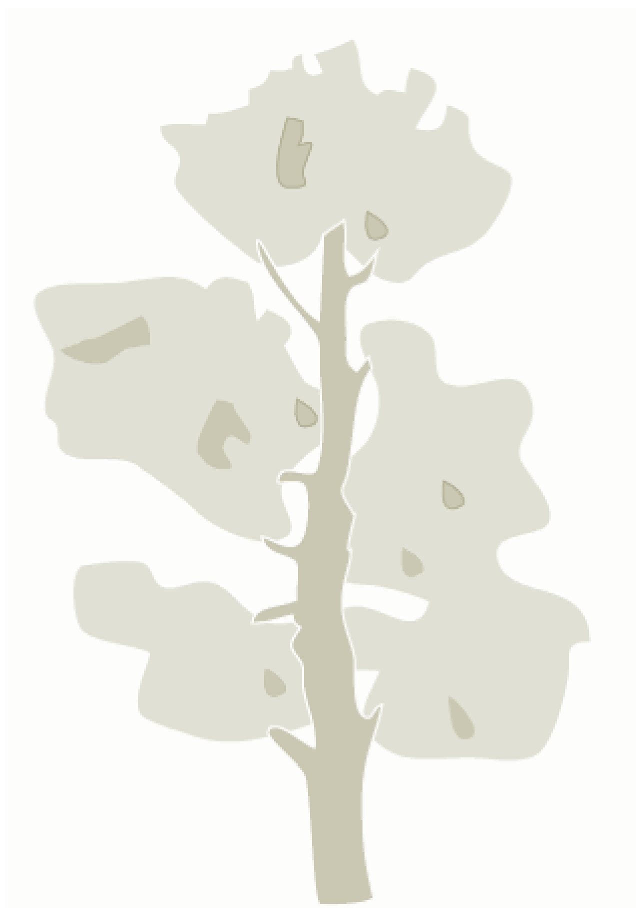
Old City

REQUIRED SUPPLEMENTARY INFORMATION



Plaza Santiago R. Palmer

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Folk Art Museum

Schedule of Revenues and Expenditures Budget And Actual – General Fund Non GAAP Budgetary Basis For the Fiscal Year Ended June 30, 2015

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	(See Notes 1 and 2)	Final Budget
Resources (Inflows):				
Property Taxes	$ 33,127,956	$ 33,127,956	$ 33,127,956	$ -
Volume of Business Taxes	25,900,000	25,900,000	24,804,744	(1,095,256)
Sales and Usage Taxes	17,180,000	17,180,000	17,619,688	439,688
Construction Excise Taxes	9,482,500	9,482,500	4,404,940	(5,077,560)
Intergovernmental Revenues	13,978,417	13,978,417	13,827,614	(150,803)
Interest	650,000	650,000	641,405	(8,595)
Rent and Other Resources	4,627,955	7,104,955	8,403,998	1,299,043
Fines and Penalties	620,000	620,000	535,971	(84,029)
Total Resources (Inflows)	105,566,828	108,043,828	103,366,316	(4,677,512)
Charges to Appropriations (Outflows):				
General Government	42,927,598	44,487,866	43,157,829	1,330,037
Public Safety	10,418,187	9,817,256	9,410,030	407,226
Public Works	11,928,256	14,179,177	13,662,370	516,807
Culture and Recreation	5,184,682	5,288,112	5,139,210	148,902
Health and Welfare	10,463,373	10,468,168	10,389,072	79,096
Economic and Social Development	4,998,457	4,974,241	4,752,593	221,648
Housing	860,525	854,375	776,789	77,586
Sanitation and Environmental	16,138,288	15,444,621	15,189,508	255,113
Education	2,647,462	2,530,012	2,493,767	36,245
Total Charges to Appropriations	105,566,828	108,043,828	104,971,168	3,072,660
Excess of Resources Over Appropriations	**$ -**	**$ -**	**$ (1,604,852)**	**$ (1,604,852)**

The notes to the required supplementary information are an integral part of this schedule.

1. RECONCILIATION OF BUDGET/ GAAP

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2015 is presented below for the general fund.

2. EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 111)	$ 103,366,316
Difference – Budget to GAAP:	
Transfers from Other Funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(6,252,786)
Perspective Difference:	
Non Budgetary items - Revenues of Other Funds	4,559,152
Non Budgetary items	(1,320,032)
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 30)	$ 100,352,650
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 111)	$ 104,971,168
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary items - Expenditures of Other Funds	6,767,464
Other Items - Non budgetary	(525,671)
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(2,167,793)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	2,289,355
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(9,949,770)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 30)	$ 101,384,753

END OF NOTES

Municipality's Proportionate Share of the Schedule of Net Pension Liability
For the Fiscal Year Ended June 30, 2015

		2015
Proportion of the Net Pension Liability		0.65806%
Proportionate Share of the Net Pension Liability	$	198,023,675
Covered - Employee Payroll	$	25,744,720
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll		769.18%
Plan's Fiduciary Net Position	$	838,879
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability		0.42%

Notes to Schedule:

Benefit Changes: In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes Assumptions: In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

The amounts presented have a measurement date of June 30, 2014.

Data Reference: Employees' Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

SCHEDULE OF CONTRIBUTIONS
A COST SHARING PLAN DEFINED BENEFIT PENSION PLAN
JUNE 30, 2015
Last 10 Years*

	2015
Contractually Required Contribution (Actuarially Determined)	$ 11,994,295
Contributions in Relation to the Actuarially Required Contributions	5,469,163
Contribution Deficiency (Excess)	$ 6,525,132
Covered - Employee Payroll	$ 25,744,720
Contributions as a Percentage of Covered-Employee Payroll	21.24%

Methods and Assumptions Used in Calculation of the ERS's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contributions:

Assets Valuation Method	Market Value of Assets
Inflation	2.5%
Investment Rate of Return	6.75% , Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	4.29% , as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	4.29%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

Mortality

Pre-retirement Mortality:

For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

100.0% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed fordisabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

1. The Municipality implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, during fiscal year 2015, and these schedules are now required.

2. This information is intended to help users assess the Municipality's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

3. The information presented relates solely to the Municipality and not Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

END OF NOTES

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Museum Snuff
Herminio Torres Grillo

COMBINING FINANCIAL STATEMENTS

Tourism office

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Old City

Non Major Governmental Funds

Housing Funds – Accounts for the funds of those federal and state assignments for eligible participants and related to housing and welfare.

Social & Welfare Activities – Accounts for the funds to improve the quality of life in the communities.

Economic Development – Accounts for the funds to improve the development and economic growth in the Municipality.

Mass Transportation System – Accounts for the funds to improve the transportation in the Municipality and construction of a train.

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	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and Cash Equivalents	$ 1,171,547	$ 638,042	$ 1,885,565	$ -	$ 3,695,154
Cash with Fiscal Agent	-	-	1,630	499,793	501,423
Amount to be Received	-	-	-	-	-
Receivables:					
Sales and Usage Taxes	-	-	-	-	-
Volume of Business Taxes	-	-	-	-	-
Due from Governmental Units	-	41,736	-	-	41,736
Federal Grants	1,974,624	429,216	25,000	-	2,428,840
Due from Other Funds	-	-	-	-	-
Loans Receivable	-	67,620	376,394	-	444,014
Other	-	-	62	-	62
Total Assets	**$ 3,146,171**	**$ 1,176,614**	**$ 2,288,651**	**$ 499,793**	**$ 7,111,229**
LIABILITIES:					
Account Payable	$ 192,063	$ 138,712	$ 47,125	$ 73,608	$ 451,508
Bond Payable	-	-	-	-	-
Interest on Bonds Payable	-	-	-	-	-
Due to Other Funds	446,213	618,627	1,951,832	224,178	3,240,850
Advance Deposits	-	-	-	-	-
Unearned Revenues - Volume of Business Tax	-	-	-	-	-
Total Liabilities	**638,276**	**757,339**	**1,998,957**	**297,786**	**3,692,358**
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues:					
Commonwealth of Puerto Rico	-	-	-	-	-
Federal Grants	1,433,290	-	-	-	1,433,290
Total Deferred Inflows of Resources	**1,433,290**	**-**	**-**	**-**	**1,433,290**
FUND BALANCES:					
Restricted	1,074,605	612,953	1,494,196	-	3,181,754
Committed	-	-	62,266	202,007	264,273
Assigned	-	-	-	-	-
Unassigned (Deficit)	-	(193,678)	(1,266,768)	-	(1,460,446)
Total Fund Balances	**1,074,605**	**419,275**	**289,694**	**202,007**	**1,985,581**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 3,146,171**	**$ 1,176,614**	**$ 2,288,651**	**$ 499,793**	**$ 7,111,229**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

Combining Statement of Revenues, Expenditures And Chance in Fund Balance – Nonmajor Governmental Funds – Special Revenues For the Fiscal Year Ended June 30, 2015

	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-
Construction Excise Taxes	-	-	-	-	-
Federal Grants	8,872,008	2,068,109	141,101	-	11,081,218
Fines and Penalties	-	-	-	-	-
Intergovernmental	-	163,773	378,840	-	542,613
Interest	1,627	28,384	15,736	3	45,750
Rent and Other Services	1,400	220,144	46,858	-	268,402
Solid Waste Disposal	-	-	-	-	-
Other General Revenues	367,239	-	24,361	-	391,600
Total Revenues	**9,242,274**	**2,480,410**	**606,896**	**3**	**12,329,583**
EXPENDITURES:					
Current:					
General Government	25,250	228	318,123	-	343,601
Public Safety	-	83,812	455,521	-	539,333
Public Works	269,594	50,367	588,014	250,085	1,158,060
Culture and Recreation	-	-	-	-	-
Health and Welfare	36,051	258,782	95,920	-	390,753
Education	-	1,867,957	102,198	-	1,970,155
Sanitation and Environmental	-	7,816	4,500	-	12,316
Economic and Social Development	-	152,762	76,662	-	229,424
Housing	8,886,932	-	-	-	8,886,932
Capital Outlay	54,488	9,047	30,705	-	94,240
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Total Expenditures	**9,272,315**	**2,430,771**	**1,671,643**	**250,085**	**13,624,814**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(30,041)**	**49,639**	**(1,064,747)**	**(250,082)**	**(1,295,231)**
OTHER FINANCING SOURCES (USES):					
Debt Issuances	$ -	$ -	$ -	$ -	$ -
Transfers – In	-	-	146	-	146
Transfers – Out	(1,101)	(1,141)	(142,060)	-	(144,302)
Total Other Financing Sources (Uses)	**(1,101)**	**(1,141)**	**(141,914)**	**-**	**(144,156)**
Net Change in Fund Balances	**(31,142)**	**48,498**	**(1,206,661)**	**(250,082)**	**(1,439,387)**
Fund Balances – Beginning, As Previously Reported	1,105,747	370,777	1,496,355	452,089	3,424,968
Restatement	-	-	-	-	-
Fund Balances – Beginning, as Restated	1,105,747	370,777	1,496,355	452,089	3,424,968
FUND BALANCES – ENDING	**$ 1,074,605**	**$ 419,275**	**$ 289,694**	**$ 202,007**	**$ 1,985,581**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

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Museum Snuff
Herminio Torres Grillo

Statistical Section

Autonomous Municipality of Caguas
For the Fiscal Year Ended June 30, 2015

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Museum Snuff
Herminio Torres Grillo

STATISTICAL SECTION

This part of the Autonomous Municipality of Caguas comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

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Except where noted, the information in these schedules is derived from the Autonomous Municipality of Caguas audited financial reports for the corresponding year. The Municipality implemented GASB Statement Nos. 63 and 65 in fiscal year ended June 30, 2013; schedules presenting government-wide information were changed accordingly. During Fiscal Year 2014-2015, the Municipality implemented the requirements of GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions,* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements required prior year adjustments. Accordingly, some figures are adjusted to consider such restatements.

Sources: The Municipality's audited financial reports for the previous ten years. District files and public records from various local and state agencies.

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Old City

Net Position by Component
Last Ten Fiscal Years
(Prepared by using the accrual basis of accounting)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental										
Net Invested in capital assets	$ 267,268,049	$ 280,137,995	$ 270,985,585	$ 297,583,980	$ 360,577,001	$ 370,652,456	$ 387,689,421	$ 344,613,386	$ 293,057,489	$ 184,676,300
Restricted	43,222,730	36,791,572	48,053,931	33,293,852	40,101,047	38,934,117	16,171,912	50,130,569	59,016,483	52,943,537
Unrestricted (Deficit)	(265,386,982)	(255,272,010)	(67,369,074)	(59,415,949)	(55,880,319)	(51,368,451)	(32,910,505)	8,363,042	8,873,193	6,347,133
Total	$ 45,103,797	$ 61,657,557	$ 251,670,442	$ 271,461,883	$ 344,797,729	$ 358,218,122	$ 370,950,828	$ 403,106,997	$ 360,947,165	$ 243,966,970
Business-type activities										
Net Invested in capital assets	$ -	$ -	$ -	$ 23,147,188	$ 23,604,950	$ 23,722,874	$ 17,155,385	$ 13,006,233	$ 7,754,461	$ 7,813,633
Restricted	-	-	-	-	-	-	-	-	5,377,561	2,052,485
Unrestricted	-	-	-	1,981,356	2,636,538	5,579,396	4,692,281	5,379,357	-	2,437,025
Total	$ -	$ -	$ -	$ 25,128,544	$ 26,241,488	$ 29,302,270	$ 21,847,666	$ 18,385,590	$ 13,132,022	$ 12,303,143
Activities Totals										
Net Invested in capital assets	$ 267,268,049	$ 280,137,995	$ 270,985,585	$ 320,731,168	$ 384,181,951	$ 394,375,330	$ 404,844,806	$ 357,619,619	$ 300,811,950	$ 192,489,933
Restricted	43,222,730	36,791,572	48,053,931	33,293,852	40,101,047	38,934,117	16,171,912	50,130,569	64,394,044	54,996,022
Unrestricted (Deficit)	(265,386,982)	(255,272,010)	(67,369,074)	(57,434,593)	(53,243,781)	(45,789,055)	(28,218,224)	13,742,399	8,873,193	8,784,158
Total	$ 45,103,797	$ 61,657,557	$ 251,670,442	$ 296,590,427	$ 371,039,217	$ 387,520,392	$ 392,798,494	$ 421,492,587	$ 374,079,187	$ 256,270,113

Note: The Municipality implemented the GASB Statements 63 & 65 on the fiscal year ended June 30, 2013.
In addition, the Municipality implemented the GASB Statement 68 on the fiscal year ended June 30, 2015.

Changes in Net Position
Last Ten Fiscal Years
(Prepared by using the accrual basis of accounting)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental Activities:										
Expenses										
General government	$ 40,544,933	$ 38,255,865	$ 42,596,455	$ 46,853,541	$ 39,743,963	$ 40,414,023	$ 43,407,060	$ 36,885,789	$ 53,886,597	$ 38,310,363
Public Safety	11,954,408	9,804,511	11,094,742	11,060,805	10,410,999	11,721,689	9,965,172	10,734,003	9,272,095	8,797,955
Public Work	23,525,790	22,565,224	28,739,562	30,008,248	29,591,596	23,517,464	31,999,201	25,560,207	41,441,711	24,469,027
Culture and recreation	10,374,870	10,120,801	11,963,260	6,584,416	4,577,429	5,310,329	7,429,284	12,403,733	7,804,848	8,276,237
Health and welfare	12,543,232	11,994,232	12,994,565	17,995,172	19,084,763	19,589,340	19,062,734	15,819,886	7,836,447	9,295,701
Economic and social development	9,328,833	8,199,012	9,482,715	6,765,876	14,063,387	9,563,934	9,675,386	5,378,274	6,327,654	4,133,619
Housing	10,545,647	11,030,562	11,799,459	11,907,765	11,045,789	12,034,862	18,836,679	12,405,463	10,959,641	12,633,171
Sanitation and environmental	16,387,879	15,347,716	16,019,816	16,298,783	15,637,305	14,573,005	15,092,658	15,109,993	13,263,809	11,737,150
Education	20,033,373	17,028,422	18,542,112	16,931,864	15,887,413	15,691,577	14,691,953	16,545,308	14,076,737	15,234,980
Unallocated Interest	10,802,643	10,636,609	11,681,762	10,676,171	9,258,116	8,611,307	9,448,175	11,775,259	10,472,894	7,767,626
Loss of Disposition Asset	-	-	1,412,427	-	-	-	-	-	-	-
Total expenses	166,041,608	154,982,954	176,326,875	175,082,641	169,300,760	161,027,530	179,608,302	162,617,915	175,342,433	140,655,829
Program Revenues										
Charge for services:										
General government	-	-	-	105,238	153,805	758,210	240,552	227,051	3,518,766	1,885,100
Culture and recreation	27,868	-	-	122,987	-	-	-	-	-	-
Public Safety	636,603	851,906	606,619	588,401	910,061	830,352	468,387	133,892	407,103	73,773
Health and walthfare		-	-	-	-	-	-	-	12,201	903,191
Economic and social development	409,708	368,948	581,564	1,787,815	369,335	374,107	145,214	190,856	688,264	577,071
Housing	1,400	250	-	-	-	-	-	-	-	2,217,324
Sanitation and enviromental	99,853	107,531	62,408	37,445	98,577	118,575	19,319	62,408	-	-
Education		-	-	-	-	-	-	-	-	-
Operating grants and contributions	29,465,623	27,371,911	29,639,476	31,463,254	35,241,185	33,176,474	32,729,207	31,614,880	31,160,356	43,037,022
Capital grants and contributions	2,181,931	2,022,386	3,037,004	2,524,865	4,979,585	4,264,705	2,736,340	60,901,514	17,467,339	6,164,373
Total program revenues	32,822,986	30,722,932	33,927,071	36,630,005	41,752,548	39,522,423	36,339,019	93,130,601	53,254,029	54,857,854
Total Net Expense	**133,218,622**	**124,260,022**	**142,399,804**	**138,452,636**	**127,548,212**	**121,505,107**	**143,269,283**	**69,487,314**	**122,088,404**	**85,797,975**
Business-type activities:										
Community Development Bank	-	-	-	(65,329)	10,422	(48,935)	(441,583)	(51,056)	(137,344)	(120,636)
Multitenant	-	-	-	(426,408)	(214,897)	(278,456)	(5,760)	1,067,991	1,942,615	755,437
Turabo Recreational Park	-	-	-	-	-	-	-	-	-	-
Fine Art	-	-	-	-	-	-	-	-	-	-
Total Net (Expense) Revenue	**-**	**-**	**-**	**(491,737)**	**(204,475)**	**(327,391)**	**(447,343)**	**1,016,935**	**1,805,271**	**634,801**

continue

Changes in Net Position
Last Ten Fiscal Years
(Prepared by using the accrual basis of accounting)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Revenues										
Property taxes	$ 50,700,722	$ 51,678,096	$ 53,565,168	$ 56,891,271	$ 54,082,666	$ 55,698,431	$ 45,200,224	$ 53,966,882	$ 53,882,740	$ 52,535,437
Volume of business	23,624,260	24,735,251	25,805,434	24,084,347	26,227,325	23,060,087	37,477,506	25,672,625	29,428,186	27,906,137
Sales tax	20,916,340	20,580,433	20,604,386	20,187,076	18,845,077	19,464,329	19,653,668	18,978,615	19,510,957	8,902,250
Licenses and permits	4,947,664	2,991,732	3,107,824	5,453,189	2,428,661	-	4,935,551	4,463,529	8,902,337	9,374,513
Interest and investment income	756,516	981,420	816,993	836,107	758,315	699,719	2,105,345	3,262,871	3,240,416	2,406,489
Gain or (Loss) on disposal of Capital Assets				95,807	-	1,528,317	(44,589)	-	-	-
Indirect costs	-	-	-	-	-	-	-	750,000	-	-
Intergovernmental	13,567,369	14,012,671	16,649,898	14,333,905	11,766,517	11,272,151	10,902,119	-	-	-
Other	2,151,991	2,147,933	2,058,660	595,700	1,503,460	1,091,739	(200,328)	1,021,244	-	-
Total revenues	116,664,862	117,127,536	122,608,363	122,477,402	115,612,021	112,814,773	120,029,496	108,115,766	114,964,636	101,124,826
Special Items										
Contributions to Nonprofit Entity	-	(767,917)	-	-	-	-	-	-	-	-
Donated Capital Assets	-	66,911	-	-	-	-	-	-	-	-
Total General Revenues and Special Items	116,664,862	116,426,530	122,608,363	122,477,402	115,612,021	112,814,773	120,029,496	108,115,766	114,964,636	101,124,826
CHANGE IN NET POSITION										
Governmental Activities	(16,553,760)	(7,833,492)	(19,791,441)	(15,975,234)	(11,936,191)	(8,690,334)	(23,239,787)	38,628,452	(7,123,768)	15,326,851
Business-type activities	-	-	-	(1,010,422)	(2,317,262)	6,934,498	3,115,773	1,352,692	2,457,458	671,836
Total Primary Government	$ (16,553,760)	$ (7,833,492)	$ (19,791,441)	$ (16,985,656)	$ (14,253,453)	$ (9,017,725)	$ (23,687,130)	$ 39,645,387	$ (5,318,497)	$ 15,961,652

Note: The Municipality implemented the GASB Statements 63 & 65 on the fiscal year ended June 30, 2013.
In addition, the Municipality implemented the GASB Statement 68 on the fiscal year ended June 30, 2015.

Fund Balances – Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2015*	2014*	2013*	2012*	2011*	2010	2009	2008	2007	2006
General Fund:										
Commited	$ 8,731,817	$ 6,436,469	$ 6,887,214	$ 3,993,401	$ 893,795	-	-	-	-	-
Assigned	2,344,985	2,715,496	2,171,778	2,453,824	2,235,950	-	-	-	-	-
Unassigned	5,913,325	5,719,987	5,629,486	10,491,443	6,444,769	-	-	-	-	-
Restricted/Reserved	2,791,023	2,064,020	3,649,683			2,302,160	4,383,200	6,143,629	6,917,308	16,293,914
Unreserved	-	-	-	-	-	3,379,316	(4,138,068)	2,219,413	1,955,885	14,913,915
Total General Fund	**19,781,150**	**16,935,972**	**18,338,161**	**16,938,668**	**9,574,514**	**5,681,476**	**245,132**	**8,363,042**	**8,873,193**	**31,207,829**
Capital Project Fund:										
Restricted/ Reserved	12,880,627	17,935,948	24,451,526	24,832,522	13,600,623	12,315,145	24,443,301	35,056,375	59,774,609	29,629,036
Assigned	1,942,677	2,781,035	-	-	-	-	-	-	-	-
Unassigned (deficit)	(391,201)	(428,426)	-	-	-	-	-	17,183,068	-	-
Total Capital Project Fund	**14,432,103**	**20,288,557**	**24,451,526**	**24,832,522**	**13,600,623**	**12,315,145**	**24,443,301**	**52,239,443**	**59,774,609**	**29,629,036**
Debt Service Fund:										
Restricted/ Reserved	11,459,393	17,098,233	17,444,896	19,963,005	27,232,079	19,995,667	7,209,097	3,941,040	6,318,128	16,846,301
Total Debt Service Fund	**11,459,393**	**17,098,233**	**17,444,896**	**19,963,005**	**27,232,079**	**19,995,667**	**7,209,097**	**3,941,040**	**6,318,128**	**16,846,301**
Health and Human Services Fund:										
Restricted/ Reserved	27,512	95,150	-	-	-	-	-	-	-	-
Total Debt Service Fund	**27,512**	**95,150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Govermental Funds:										
Commited	264,273	539,699	942,538	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned (Deficit)	(1,460,446)	(410,506)	(423,703)	-	-	-	-	4,257,657	-	-
Restricted	3,181,754	3,295,775	3,318,288	5,996,896	7,773,228	9,227,818	1,244,008	3,169,301	11,568,736	7,148,844
Total Other Governmental Fund	**1,985,581**	**3,424,968**	**3,837,123**	**5,996,896**	**7,773,228**	**9,227,818**	**1,244,008**	**7,426,958**	**11,568,736**	**7,148,844**
Total Fund Balances	$ 47,685,739	$ 57,842,880	$ 64,071,706	$ 67,731,091	$ 58,180,444	$ 47,220,106	$ 33,141,538	$ 71,970,483	$ 86,534,666	$ 84,832,010

*The Municipality implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective July 1st, 2010.

Change in Fund Balances – Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Property taxes	$ 51,489,610	$ 55,504,656	$ 48,949,720	$ 56,891,271	$ 53,167,198	$ 55,698,431	$ 45,200,224	$ 53,764,606	$ 53,882,740	$ 52,535,437
Volume of business taxes	23,624,260	24,735,251	25,805,434	24,446,587	26,265,718	26,043,011	27,054,049	25,672,625	29,428,186	27,906,137
Sales tax	20,916,340	20,580,433	20,604,386	20,035,853	18,940,708	20,051,076	17,531,315	18,978,615	19,510,597	8,902,250
Licenses and permits	4,947,664	2,991,732	3,107,824	5,453,189	2,583,023	1,297,115	4,033,924	4,463,529	8,902,337	9,374,558
Federal grant	27,543,277	29,453,456	29,181,144	31,523,008	32,019,158	31,258,252	26,451,538	26,141,461	33,048,797	32,993,337
Fines and penalties	636,603	851,906	606,619	588,401	910,061	830,352	468,387	133,892	251,811	73,773
Interest and investment income	756,516	981,786	816,993	834,404	755,974	682,234	2,088,394	3,203,797	3,135,304	2,369,746
Intergovernmental	16,037,892	16,998,516	19,739,987	17,443,293	22,930,091	18,981,159	19,916,128	10,720,031	14,952,975	16,406,913
Parking fees	-	-	-	105,238	153,805	220,031	240,552	227,051	359,836	300,332
Rent	707,183	912,997	642,189	1,787,815	369,335	294,561	145,214	190,856	675,921	506,809
Indirect cost	-	-	23,228	-	-	-	-	750,000	-	-
Solid waste disposal	99,853	107,531	62,408	37,445	98,577	118,575	19,319	62,408	-	-
Other	2,077,188	1,848,394	2,035,432	1,116,540	1,493,917	1,075,040	235,591	1,021,244	2,321,198	4,774,795
Total Revenues	148,836,386	154,966,658	151,575,364	160,263,044	159,687,565	156,549,837	143,384,635	145,330,115	166,469,702	156,144,087
Expenditures										
General government	36,122,860	37,586,925	42,476,419	38,411,214	36,040,433	35,588,049	36,835,062	30,147,616	44,374,128	36,821,338
Public safety	10,275,282	9,956,068	10,398,620	9,950,281	10,276,704	10,731,195	9,490,952	10,379,889	9,086,946	8,474,499
Public works	14,605,288	13,614,572	18,126,190	19,516,855	22,073,362	14,719,619	23,311,211	17,197,882	25,996,558	14,619,698
Culture and recreation	5,618,689	5,535,141	6,209,382	6,108,679	4,261,700	5,072,011	7,179,247	8,264,925	7,698,597	8,005,593
Health and welfare	12,142,314	11,857,137	12,883,440	12,737,153	14,094,371	14,283,042	14,543,053	15,749,859	7,578,755	8,952,654
Economic and Social Development	7,203,716	6,690,860	7,602,515	3,855,726	9,271,739	4,352,604	4,322,837	5,178,600	6,206,609	4,039,084
Housing	9,823,444	10,884,363	11,356,593	12,003,737	11,045,326	11,889,816	18,479,742	11,920,904	10,959,641	11,862,211
Sanation and enviromental	15,518,486	15,692,720	16,035,909	15,931,482	15,409,251	14,452,698	14,777,784	14,849,915	13,170,394	11,448,282
Education	17,914,495	16,097,631	16,994,331	16,556,906	16,843,621	15,658,563	14,666,929	14,123,498	13,845,949	15,073,873
Capital outlays	6,667,417	14,852,612	13,250,190	21,045,938	14,284,324	20,965,871	27,233,715	32,532,007	34,367,084	27,526,966
Debt service payments :										
Bond Issurance Cost	-	-	98,313	-	-	-	-	-	-	-
Principal	16,148,893	15,131,804	15,617,575	15,541,341	12,841,059	15,691,623	11,412,339	9,098,033	9,176,033	7,695,033
Interest	10,802,643	10,636,609	11,681,762	10,664,031	8,975,105	8,611,307	9,448,175	11,775,259	10,472,894	7,767,626
Total Expenditures	162,843,527	168,536,442	182,731,239	182,323,343	175,416,995	172,016,398	191,701,046	181,218,387	192,933,588	162,286,857

continue

Change in Fund Balances – Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(14,007,141)	(13,569,784)	(31,155,875)	(22,060,299)	(15,729,430)	(15,466,561)	(48,316,411)	(35,888,272)	(26,463,886)	(6,142,770)
Other financing sources (uses)										
Proceeds from debt issuance	-	7,415,000	24,601,621	32,120,000	25,659,817	32,025,000	30,592,500	25,996,000	24,210,000	42,125,000
Refunding Bond Issuances	-	27,669,088	-	-	-	-	-	-	-	-
Payment to Refunded Bond	-	(27,470,000)	-	-	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	(199,088)	-	-	-	-	-	-	-	-
Proceeds from debt refinancing	-	-	-	13,325,000	34,451,293	-	-	-	-	-
Payments of debt refinancing and other uses	-	-	-	(13,325,000)	(34,451,293)	-	-	-	-	-
Advance from other governments	-	-	-	-	-	-	1,386,083	-	-	-
Property taxes transferred from debt service fund	3,850,000	-	-	-	-	-	-	-	-	-
Operating transfer in	11,976,969	5,247,152	5,247,152	25,981,726	5,330,823	9,051,710	10,710,169	17,194,331	19,525,568	14,085,014
Operating transfer out	(11,976,969)	(5,247,132)	(5,247,152)	(25,717,733)	(5,330,823)	(14,751,098)	(14,692,253)	(17,471,013)	(20,072,644)	(14,085,014)
Other financing sources, net	3,850,000	7,415,020	24,601,621	32,383,993	25,659,817	26,325,612	27,996,499	25,719,318	23,662,924	42,125,000
NET CHANGE IN FUND BALANCE	$ (10,157,141)	$ (6,154,764)	$ (6,554,254)	$ 10,323,694	$ 9,930,387	$ 10,859,051	$ (20,319,912)	$ (10,168,954)	$ (2,800,962)	$ 35,982,230
Debt Service as a percentage of non-capital expenditures	17.3%	16.8%	16.1%	16.2%	13.5%	16.1%	12.7%	14.0%	12.4%	11.5%

Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Real Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE		
Fiscal year ended											Total direct
June 30	# Property	Value	# Property	Value	# Property	Value	# Property	Value	# Property	Value	tax rate
2015*	48,143	$ 7,181,187,980	1271	$ 600,587,180	46,872	6,580,600,800	33,830	$3,303,136,910	13,042	3,277,463,890	0.983%
2014*	48,015	7,756,389,441	1158	651,709,600	46,857	7,104,679,841	33,929	3,310,892,440	12,928	3,793,787,401	0.983%
2013*	47,822	7,192,693,390	1073	611,753,350	46,749	6,580,940,040	33,805	3,295,580,880	12,944	3,285,359,160	0.983%
2012*	47,732	7,189,854,910	1000	491,301,280	46,732	6,698,553,630	33,637	3,278,494,240	21,689	3,420,059,390	0.98%
2011*	47,227	7,031,730,668	741	447,166,944	46,486	6,584,563,724	33,505	3,256,559,845	21,365	3,328,003,879	0.98%
2010*	46,442	6,908,458,026	623	451,354,212	45,819	6,457,103,814	32,876	3,180,445,153	12,943	3,276,658,661	0.98%
2009	44,999	668,709,652	520	49,905,209	44,479	618,804,443	31,770	305,425,970	20,174	313,378,473	9.53%
2008	44,125	653,072,232	469	47,517,534	43,656	605,554,698	31,106	296,769,315	19,940	308,785,383	9.53%
2007	43,163	637,333,592	533	52,247,255	42,630	585,086,337	30,850	294,634,177	19,071	290,452,160	8.78%
2006	41,653	603,980,438	469	44,778,025	41,184	559,202,413	29,914	282,789,912	18,099	276,412,501	8.78%

Personal Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE		
Fiscal year ended											Total direct
June 30	# Property	Value	# Property	Value	# Property	# Property	# Property	Value	# Property	Value	tax rate
2015	2,822	$ 442,402,043	140	$ 118,486,504	2,682	$ 323,915,539	561	$ 3,108,249	2,121	$ 320,807,290	7.83%
2014	2,936	542,977,551	143	212,942,877	2,793	330,034,674	578	3,134,580	2,215	326,900,094	7.83%
2013	2,976	595,686,235	138	253,852,889	2,838	341,833,346	596	3,533,915	2,242	338,299,431	7.83%
2012	3,048	576,386,120	157	234,189,018	2,891	342,197,102	620	4,196,437	2,384	338,000,665	7.83%
2011	3,042	639,021,679	170	269,892,877	2,872	369,128,802	573	3,734,501	2,408	365,394,301	7.83%
2010	2,909	641,411,184	143	259,018,920	2,766	382,392,264	585	4,626,510	2,181	377,765,754	7.83%
2009	3,296	612,839,684	154	229,378,366	3,142	383,461,318	591	4,900,647	1,993	378,560,671	7.53%
2008	3,020	594,315,969	141	197,298,357	2,879	397,017,612	634	4,602,732	2,363	392,414,880	7.53%
2007	2,925	580,767,869	150	192,071,390	2,775	388,696,479	622	4,738,987	2,292	383,957,492	6.78%
2006	2,849	601,032,826	143	203,179,698	2,706	397,853,128	626	4,799,118	2,212	393,054,010	6.78%

continue

Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Total Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE	
Fiscal year ended										
June 30	# Property	Value	# Property	Value	# Property	Value	# Property	Value	# Property	Value
2015*	50,965	7,623,590,023	1411	719,073,684	49554	6,904,516,339	34391	3,306,245,159	15163	3,598,271,180
2014*	50,951	8,299,366,992	1301	864,652,477	49650	7,434,714,515	34507	3,314,027,020	15143	4,120,687,495
2013*	50,798	7,788,379,625	1211	865,606,239	49587	6,922,773,386	34401	3,299,114,795	15186	3,623,658,591
2012*	50,780	7,766,241,030	1157	725,490,298	49623	7,040,750,732	34257	3,282,690,677	24073	3,758,060,055
2011*	50,269	7,670,752,347	911	717,059,821	49,358	6,953,692,526	34,078	3,260,294,346	23,773	3,693,398,180
2010*	49,351	7,549,869,210	766	710,373,132	48,585	6,839,496,078	33,461	3,185,071,663	15,124	3,654,424,415
2009	48,295	1,281,549,336	674	279,283,575	47621	1,002,265,761	32361	310,326,617	22167	691,939,144
2008	47,145	1,247,388,201	610	244,815,891	46,535	1,002,572,310	31,740	301,372,047	22,303	701,200,263
2007	46,088	1,218,101,461	683	244,318,645	45,405	973,782,816	31,472	299,373,164	21,363	674,409,652
2006	44,502	1,205,013,264	612	247,957,723	43,890	957,055,541	30,540	287,589,030	20,311	669,466,511

* The Law Number 7 dated March 9, 2009, amended the formula for the computation of real property value. That new law establishes that the value of real property should be determined by multiplying the actual property valuation amount by 10 times the actual value of property beginning on January 1, 2009.

Source: Municipal Collection Tax Center

Direct Property Tax Rates
Last Ten Fiscal Years

Real Property

Fiscal year	General Purpose	Debt Service	Commonwealth of Puerto Rico	Total
2015	0.58%	0.300%	0.103%	0.983%
2014	0.58%	0.300%	0.103%	0.983%
2013	0.58%	0.300%	0.103%	0.983%
2012	0.58%	0.300%	0.103%	0.983%
2011	0.58%	0.300%	0.103%	0.983%
2010	0.58%	0.300%	0.103%	0.983%
2009	5.80%	2.50%	1.03%	9.33%
2008	5.80%	2.50%	1.03%	9.33%
2007	5.80%	1.75%	1.03%	8.58%
2006	5.80%	1.75%	1.03%	8.58%

Personal Property

Fiscal year	General Purpose	Debt Service	Commonwealth of Puerto Rico	Total
2015	3.80%	3.00%	1.03%	7.83%
2014	3.80%	3.00%	1.03%	7.83%
2013	3.80%	3.00%	1.03%	7.83%
2012	3.80%	3.00%	1.03%	7.83%
2011	3.80%	3.00%	1.03%	7.83%
2010	3.80%	3.00%	1.03%	7.83%
2009	3.80%	2.50%	1.03%	7.33%
2008	3.80%	2.50%	1.03%	7.33%
2007	3.80%	1.75%	1.03%	6.58%
2006	3.80%	1.75%	1.03%	6.58%

Source: Municipal Collection Tax Center

Personal Property	2015			2006		
Taxpayer	Tax Levied	Rank	Percentage of Total Tax Levied	Tax Levied	Rank	Percentage of Total Tax Levied
Wal-mart Puerto Rico, Inc.	$ 1,990,286	1	7.92%	$ 1,134,555	3	4.26%
Home Depot Puerto Rico, Inc.	809,096	2	3.22%	657,317	5	2.47%
Costco Wholesale	643,897	3	2.56%	644,577	6	2.42%
K Mart Corporation C/o Burr Wolff	548,258	4	2.18%	513,173	9	1.93%
Walgreen's of Puerto Rico	525,532	5	2.09%	-		0.00%
Avon Products, Inc.	496,783	6	1.98%	1,164,235	1	4.37%
JC Penney PR. Inc	479,394	7	1.91%	518,439	8	1.95%
Sears Roebuck de Puerto Rico, Inc.	462,213	8	1.84%	487,994	10	1.83%
Banco Popular de Puerto Rico	409,926	9	1.63%	-		0.00%
C&M Auto Parts, Inc.	359,323	10	1.43%	-		0.00%
Drogueria Betances, Inc.	-			1,139,408	2	4.28%
Flour Daniel Caribean	-			915,962	4	3.44%
Abreu Power Cars Inc.	-			573,173	7	2.15%
Total	$ 6,724,708		26.77%	$ 7,748,832		18.46%

continue

Real Property	2015			2006		
Taxpayer	Tax Levied	Rank	Percentage of Total Tax Levied	Tax Levied	Rank	Percentage of Total Tax Levied
Puerto Rico Telephone Company, Inc.	$ 1,356,109	1	4.21%	$ 1,452,950	1	6.13%
Caguas Centrum Limited Partnership S E	390,234	2	1.21%	350,535	3	1.48%
First SB SCA ASSOC/MJS Caguas limited	225,494	3	0.70%	202,555	5	0.85%
FW Caguas Retail Joint Venture	211,546	4	0.66%	190,026	6	0.80%
AT&T Mobility Puerto Rico Inc.	206,502	5	0.64%	147,162	9	0.62%
Wal-mart Puerto Rico, Inc.	185,948	6	0.58%	1,891,638		7.98%
TSCPR Family Partnership #8, LTD, SE	172,970	7	0.54%	-		0.00%
T- Mobile Puerto Rico LLC	171,986	8	0.53%	-		0.00%
PR Wireless Inc.	170,907	9	0.53%	362,622	2	1.53%
Sears Roebuck of PR Inc	163,276	10	0.51%	1,749,603		7.38%
GVT Reality LLC	-			328,228	4	1.38%
P.D.C.M. Associates SE	-			160,296	7	0.68%
Puerto Rico Telephone Company, Inc.	-			148,529	8	0.63%
Seritage SRC Finance LLC	-			146,666	10	0.62%
Total	$ 4,326,560		20.21%	$ 14,261,620		60.13%

Source: Municipal Collection Tax Center

* The Law Number 7 dated March 9, 2009, amended the formula for the computation of real property value. That new law establishes that the value of real property should be determined by multiplying the actual property valuation amount by 10 times the actual value of property beginning on January 1, 2009.

		Collected within the fiscal year of the levy				
Fiscal Year ended June 30	Taxes Levied for the Fiscal Year	Amount	Percentage of levy	Collections from prior years levied taxes	Total Collections to Date	Ratio of Total Tax Collections to Total Tax Levy
2015	$ 56,637,094	$ 39,626,877	70%	$ 8,183,101	$ 47,809,978	84%
2014	56,878,932	28,464,925	50%	20,698,463	49,163,388	86%
2013	57,369,030	34,165,051	60%	17,847,544	52,012,595	91%
2012	58,594,113	34,643,304	59%	15,790,399	50,433,703	86%
2011	61,199,448	40,592,294	66%	11,336,060	51,928,354	85%
2010	61,809,774	36,253,449	59%	15,074,274	51,327,723	83%
2009	55,861,044	38,467,806	69%	13,299,991	51,767,797	93%
2008	58,023,498	45,692,028	79%	5,302,089	50,994,116	88%
2007	55,396,264	48,061,336	87%	4,110,971	52,172,307	94%
2006	51,399,609	43,584,140	85%	3,933,986	47,518,126	92%

Source: Municipal Tax Collection Center

Ratios of Outstanding Debt by Type and Ratios Of Federal Bonded Debt Outstanding Last Ten Fiscal Years

Municipality's Outstanding Debt	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental Activities										
General obligation bonds[a]	$ 179,959,520	$ 190,044,937	$ 183,991,263	$ 193,774,956	$ 207,117,677	$ 211,783,677	$ 115,180,680	$ 115,103,680	$ 114,153,680	$ 101,853,030
Federal loans and notes	77,937,000	78,889,000	3,800,000	4,200,000	4,870,000	5,470,000	6,555,000	8,229,000	8,605,000	9,560,000
Special Loans	3,000,000	3,400,000	92,728,000	74,283,000	37,855,000	17,939,000	96,058,500	66,032,758	50,043,791	43,684,824
Total	260,896,520	272,333,937	280,519,263	272,257,956	249,842,677	235,192,677	217,794,180	189,365,438	172,802,471	155,097,854
Business type Activities										
Special bonds	-	-	-	3,593	39,571	74,840	224,165	279,435	363,982	489,871
Total general outstanding debt	$ 260,896,520	$ 272,333,937	$ 280,519,263	$ 272,261,549	$ 249,882,248	$ 235,267,517	$ 218,018,345	$ 189,644,873	$ 173,166,453	$ 155,587,725

Percentage of personal income[b]	17.89%	15.50%	13.75%	13.91%	14.77%	13.54%	13.55%	10.50%	10.99%	9.98%
Total long-term debt per capita[b]	1,889	1,919	1,972	1,926	1,751	1,646	1,520	1,323	1,209	1,086
Bonds payable per capita[b]	1,303	1,339	1,293	1,370	1,452	1,482	804	804	798	713
Net Assessed Value of Taxable Property	$ 3,598,271,180	$ 4,120,687,495	$ 3,623,658,591	$ 3,758,060,055	$ 3,693,398,180	$ 3,654,424,415	$ 691,939,144	$ 701,200,263	$ 674,409,652	$ 669,466,511
Percentage of bonds payable of net assessed value of property	5.00%	4.61%	5.08%	5.16%	5.61%	5.80%	16.65%	16.42%	16.93%	15.21%

[a] Details regarding the Municipality's outstanding debt can be found in the Note 14 in the current financial statements.
[b] See Demographical and Economic Statistics for personal income population data for the Municipality. The ratios are calculated using personal income and population for the fiscal year.

Legal Debt Margin Calculation as of June 30, 2015:

Assessed Value of Taxable Property	$ 7,756,389,441 [a]
Legal debt limit -	
10% of assesed value of taxable property	775,638,944
Debt applicable limit:	
General obligation	179,959,522
Less: GO's Debt Service Fund Balance	11,459,393
Total Net applicable to limit	168,500,129
Legal Debt Margin	$ 607,138,815

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Legal Debt Limit	$ 775,638,944	$ 829,936,699	$ 778,837,963	$ 776,624,103	$ 767,075,235	$ 754,986,921	$ 128,154,934	$ 126,037,644	$ 121,810,146	$ 120,501,326
Total net applicable to limit	168,500,129	251,835,704	242,535,104	242,535,104	242,535,104	194,860,800	110,637,495	112,884,406	110,312,904	85,006,729
Legal Debt Margin	$ 607,138,815	$ 578,100,995	$ 536,302,859	$ 534,088,999	$ 524,540,131	$ 560,126,121	$ 17,517,439	$ 13,153,238	$ 11,497,242	$ 35,494,597
Total net applicable to the limit as a percentage of debt limit	21.7%	30.3%	31.1%	31.2%	31.6%	25.8%	86.3%	89.6%	70.5%	59.0%

Note:

a The Municipal Collection Tax Center revised the property valuation for the fiscal year.

Fiscal Year	Population		Personal Income	Per Capita		Unemployment Percentage Rate
2015	138,149	***	$ 1,458,162,695	$ 10,555	*	8.9
2014	137,032	*	1,757,024,304	12,822	*	13.8
2013	142,270	***	2,040,720,880	14,344	**	12.1
2012	141,392	*	1,957,855,024	13,847	*	14.1
2011	142,678	*	1,691,590,368	11,856	*	15.4
2010	142,893	*	1,737,293,094	12,158	*	15.6
2009	143,274	*	1,608,680,472	11,228	*	14.3
2008	143,176	*	1,805,449,360	12,610	*	11.4
2007	142,984	*	1,575,540,696	11,019	*	10.3
2006	142,769	*	1,558,323,635	10,915	*	10.7

Source: US Census Bureau

*American Community Survey 1-year estimate

**Estimate by Advantage Business Consultant

*** Planning Board of Puerto Rico

Principal Industries Employers
Current Year and Nine Years Ago

Industry	2015 Employees	2015 Rank	2015 Percentage of Total City Employment	2006 Employees	2006 Rank	2006 Percentage of Total City Employment
RETAIL TRADE	8,742	1	18.9%	9,562	1	20.59%
ADM. SERVICES AND SOLID WASTE	5,203	2	11.3%	2,285	8	4.92%
HEALTH AND WELFARE	5,192	3	11.2%	4,744	4	10.21%
EDUCATIONAL SERVICES	4,800	4	10.4%	3,726	5	8.02%
ACCOMMODATION AND FOOD SERVICES	4,370	5	9.5%	3,168	6	6.82%
PUBLIC ADMINISTRATION	3,921	6	8.5%	6,326	2	13.62%
MANUFACTURING	3,104	7	6.7%	5,175	3	11.14%
WHOLESALE TRADE	1,812	8	3.9%	2,197	9	4.73%
CONSTRUCTION	1,779	9	3.9%	2,823	7	6.08%
PROFESSIONAL TECHNICAL SERVICES	1,688	10	3.7%			
CHEMICALS			-	1,845	10	3.97%
TOTAL	40,611		87.95%	41,851		90.11%

Source: Puerto Rico Department of Labor and Human Resources.

Full Time Employees by Function
Last Ten Fiscal Years

FUNCTION	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
GENERAL GOVERNMENT	304	286	299	424	409	326	288	322	360	309
PUBLIC SAFETY	243	243	305	311	332	355	337	326	330	297
PUBLIC WORK	338	332	352	325	322	304	336	386	403	368
CULTURE AND RECREATION	133	137	133	144	171	134	175	176	215	193
HEALTH AND WEALTH FARE	544	467	85	539	563	467	450	482	527	519
ECONOMIC AND SOCIAL DEVELOPMENT	74	75	488	36	35	79	61	67	85	81
HOUSING	46	48	53	62	61	62	55	59	62	56
SANITATION AND ENVIRONMENTAL	119	123	123	136	138	118	111	119	126	110
EDUCATION	17	17	28	28	31	27	20	31	33	32
TOTAL	**1,818**	**1,728**	**1,866**	**2,005**	**2,062**	**1,872**	**1,833**	**1,968**	**2,141**	**1,965**

Source: Information was obtain from Municipality's Human Resource Department.

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
PUBLIC SAFETY										
Physical arrests	223	125	393	1,633	4,027	3,816	3,222	-	-	-
Parking violations	6,915	8,660	9,820	7,658	6,788	6,984	14,345	15,919	12,235	17,191
Traffic violations	13,778	10,950	2,602	14,683	8,622	12,596	21,004	18,147	17,379	17,998
PUBLIC WORK										
Walk side construction (cubic yd.)	2,518	1,590	1,726	2,423	3,869	2,654	2,311	3,407	3,737	1,304
Street resurfacing (tons.)	17,651	19,911	10,069	18,951	17,970	8,498	10,395	27,010	16,630	25,073
Potholes repaired (tons.)	4,055	3,586	5,421	5,890	4,651	3,502	3,967	3,706	4,017	4,755
Traffic signals	383	262	482	678	603	704	310	580	169	364
Bus lines (Trolleys):										
Total route miles	25,391	40,345	41,833	39,835	29,956	29,586	23,724	17,648	16,545	3,494
Passengers	134,335	200,896	208,132	143,239	117,762	140,972	79,516	75,316	63,979	17,370
CULTURE AND RECREATION										
Museum attendance	42,868	45,608	41,350	53,268	41,675	43,232	37,623	37,668	37,350	31,470
Arts workshops	66	106	83	87	23	23	25	25	25	20
Arts workshops attendance	1,133	1,319	8,371	6,299	1,985	2,390	1,002	1,008	1,012	712
Cultural activities	153	171	442	22	30	27	12	15	17	18
Cultural activities attendance	71,422	109,589	152,469	779,350	391,871	106,753	130,104	122,301	119,600	120,500
Sports organizations	36	36	36	36	22	22	36	36	36	34
Sports activities attendance	117,128	116,635	105,850	113,350	22,253	19,407	3,217	3,218	3,121	3,108
Sports played	16	16	16	16	14	16	14	14	13	13
HEALTH AND WEALTH FARE										
Elderly transportation*	44,135	41,384	37,627	36,698	34,586	349	285	285	300	302
ADA transportation*	1,971	1,186	1,440	1,865	1,978	446	37	38	43	43
Food-services (nutricional program)*	102,970	90,131	126,800	61,980	49,205	46,116	100	100	95	95
Head-start enrollment	1,557	221,000	2,023	1,586	1,514	1,514	1,482	1,482	1,482	1,482
Care center enrollment	341	161	126	80	80	80	80	80	90	90
ECONOMIC AND SOCIAL DEVELOPMENT										
Community organizations	80	82	81	81	196	196	196	192	189	178
Business Support Center:										
Orientation or individual support	732	788	250	187	870	791	428	316	547	336
Group training	51	52	50	45	30	179	38	-	-	-
Training attendance	1,213	1,298	456	842	500	821	-	-	-	-
Business trainings	75	52	42	21	79	59	44	-	-	-
New business created	30	12	36	23	12	36	10	18	4	4
Jobs created	665	81	198	295	436	104	482	152	32	85
Tourism:										
Orientation for visitors	10,050	9,898	5,282	9,299	5,719	5,098	3,103	1,478	1,508	2,537
Website visits	20,209	12,072	13,695	20,756	-	-	-	-	-	-
School groups	58	55	47	86	50	100	-	-	-	-
Students served	3,650	3,316	1,800	4,387	2,379	6,000	-	-	-	-
Tourists tours	147	121	54	91	87	40	51	-	-	-
Tourists tours attendance	4,300	4,347	1,080	3,744	4,580	1,040	1,211	-	-	-
Botanical and garden attendance	130,000	122,159	33,447	85,512	91,325	87,367	105,473	19,506	-	-
HOUSING										
Vouchers	1,325	1,325	1,325	1,324	1,325	125	1,279	1,279	1,279	1,279
Donations minimum rehabilitation	58	104	278	258	164	113	125	251	214	341
Home grants	10	17	23	26	11	33	24	9	27	38
SANITATION AND ENVIRONMENTAL										
Waste Disposal Collected (tons)	54,279	43,846	60,020	56,470	55,959	68,631	44,145	59,851	61,702	67,676
Recyclables Collected (tons)	10,026	7,414	10,209	9,071	7,879	9,000	8,214	13,474	21,162	17,500
EDUCATION										
Public school enrollment	12,250	13,752	13,990	14,829	15,710	16,946	17,139	17,138	17,130	17,131
Municipal school enrollment	351	370	365	316	279	243	160	80	-	-
School transportation service	950	997	1,015	1,035	1,071	1,386	1,219	1,219	1,219	1,219

Source: Various City Departments

Capital Assets by Function
Last Ten Fiscal Years

	June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Function										
Public safety										
Police:										
Mobile unit	2	1	1	1	1					
Stations and substations	10	12	12	12	12	12	12	12	11	*
Patrol units	63	49	61	33	45	62	58	46	44	37
Emergency:										
Emergency units	8	10	5	3	1	4	4	4	4	3
Public works										
Highways and streets (lineal miles)	318	318	331	364	364	346	346	346	346	346
**Public works units	-	12	-	-	-	-	-	1	10	6
Culture and recreation										
Civic Center	1	1	1	1	1	1	1	1	1	1
Museums	10	10	8	8	8	7	7	6	6	6
Recreational facilities:										
Soccer parks	7	7	3	2	2	-	-	-	-	-
Basketball courts	126	126	126	126	126	90	90	90	*	*
Baseball parks	39	39	39	39	39	42	42	42	*	*
Jogging tracks	42	42	42	42	42	38	38	38	*	*
Pasive parks	78	78	78	78	78	26	26	26	*	*
Community's center-facilities	8	8	8	8	8	8	8	7	6	6
Health and welfare:										
Public Hospitals	-	1	1	1	1	2	2	2	1	1
Emergency Centers	1	1	1	1	1	6	6	6	6	5
Vaccination center	-	1	1	1	1	2	2	2	2	1
Movil health unit	-	1	1	1	1	1	1	1	1	1
Community centers	67	57	57	56	62	62	62	62	*	*
Head Start centers-owned premised	17	17	18	18	14	14	14	14	14	14
Head Start centers-leased premised	10	14	14	16	20	20	20	20	20	20
Municipal care centers	2	2	2	2	2	3	3	3	3	3
Economic and Social Development										
Urban centers	1	1	1	1	1	1	1	1	1	1
Commercial spaces	53	62	45	45	45	66	66	67	67	67
Main event venues	5	4	4	1	1	1	1	1	1	1
Sanitation and enviromental										
*** Collection truck	-	-	-	-	-	-	-	-	2	10
Education										
Science and Technology School (Jr. High)	1	2	2	2	1	1	1	1	-	-
Library	1	1	1	1	1	1	1	1	1	1
Electronic library	9	11	11	11	10	11	11	9	8	8

Source: Various City Departments

*No data was available

**Public work units are the vehicles purchased per year

***Collections truck are the vehicles purchased per year

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Folk Art Museum

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2015

Three hearts... One beat

William E. Miranda Torres, Mayor

Autonomous Municipality of Caguas
Commonwealth of Puerto Rico

CAGUAS NUESTRO NUEVO PAÍS
CENTRO Y CORAZÓN DE PUERTO RICO